VERED WEALTH MANAGEMENT (CANADA) COMPANY LIMITED

June 4th, 2023

Happy National Donut Day! If you have not done so already, make sure you stop by your local donut shop to take advantage of any sweet freebies or promotions that may be going on today. While tempting to think this celebration was started just to promote sales (as if consumers need another reason to shop for or eat donuts!), you may find it interesting to know that the origins of National Donut Day trace back to 1917, when female volunteers from the Salvation Army traveled to France to serve homemade donuts to soldiers fighting on the front lines during World War I—providing a much needed morale boost for our armed services. And speaking of a morale boost, the passage of the debt ceiling deal this week should remove a key source of uncertainty facing the markets. With the debt deal now out of the way, the market can move back to focusing on fundamentals, such as the jobs market, earnings, inflation, economic growth and the Fed. Here's our latest thinking:

Key Takeaways

Jobs Growth Still Likely To Cool In the Months Ahead

Tailwinds To Consumer Spending Coming To An End

Narrow Market Breadth Not All Doom And Gloom

- **Still Waiting On The Recession |** For more than a year, the market has been on recession watch. Yet, despite surging inflation, a deeply inverted yield curve, and the most aggressive tightening cycle in nearly four decades, the economy has held up better than expected. Even recent bouts of banking stress were not enough to tip the economy into a recession. While all the ingredients for a recession are flashing warning signals, economic growth, while slowing, continues to chug along. However, with the normal lags in monetary policy, economic growth will slow even further as we move into the second half of the year. Below are two areas we are focused on as the economy appears to be at an inflection point and headed for a mild recession in the back half of this year.
  - **Jobs Still In A 'Sweet Spot,' But For How Long? |** US employers added 339k jobs in May, with the unemployment rate rising from a historically low level of 3.4% to 3.7%. Despite a steady stream of layoff announcements, the labor market's strength continues to defy gravity. While job growth has slowed from an average of ~400k jobs per month in 2022 to ~310k jobs per month today, it remains elevated given where we are in the economic cycle. The unexpected rise in job openings to 10.1 million suggests the job market remains healthy, with 1.8 jobs available for every job seeker. However, hints of a slowdown can be seen in the declining quits rate, which has fallen to levels that prevailed prior to the pandemic, the modest uptick in the weekly claims data and the ~320% increase in the number of job cuts from this time last year reported in the latest Challenger report. Our economist expects the downward trend in job growth to continue and turn negative in 2H23.
  - **The Consumer's 'Sugar Rush' May Be Coming To An End |** The tailwinds to consumer spending—excess savings, fiscal support from the government (i.e., pandemic relief, pause on student loan repayments), pent-up demand and a strong labor market—are beginning to fade. Consumers have increasingly turned to credit to maintain their spending, but tighter bank lending standards and weaker job prospects may limit their ability to accumulate more debt. While the consumer is still spending, they are becoming increasingly cautious—hunting for deals, purchasing more affordable options and focusing on essentials—key themes echoed during Q1 earnings reports. And with the pause on student loan repayments set to end in August per the debt ceiling compromise, as many as 45 million Americans will need to start paying back nearly $1.6 trillion in student loan debt. This additional headwind will likely restrain spending even further.
- **Does Narrowing Market Breadth Have To Be An 'Unhealthy' Sign? |** The narrow leadership of the market has been a consistent theme this year, with only a handful of mega-cap stocks powering the 10+%advance in the S&P 500 this year. Deeply depressed valuations after last year's rout, the rising popularity of artificial intelligence (AI) and cost-cutting have been major catalysts behind the move in mega-cap stocks this year. But given narrow participation, with only 27% of stocks trading above their 50-day moving average, many investors remain cautious as sustainable rallies typically require broad participation. While the internals of the market are not signaling broad strength, this disconnect can resolve itself in two ways—either the strong gains from the narrow group of leaders start to fade, or the market rally broadens from here. Given that earnings are holding up better than expected and some of the major headline risks—debt ceiling, banking turmoil, end of Fed's tightening cycle—are fading, the market's attention will turn back to fundamentals and could lead to a broadening of participation to the upside.
- **Earnings Growth Is Not 'Crumbling' |** Q1 earnings season came in better than expected, supported by positive earnings surprises particularly in the Info Tech sector. A robust 78% of S&P 500 companies beat their earnings estimates and 74% beat their sales estimates, which are both above their five-year averages. Net profit margins also improved, rising from 10.8% to 12.2% as cost-cutting measures helped companies' bottom lines. These positive surprises have stabilized the decline in 2023 earnings around the ~$220 level, just above our $215 EPS estimate for year end.

CHART OF THE WEEK

Excess Savings Dwindling

Consumers are rapidly depleting the excess savings they built up since the start of the pandemic. Our estimates suggest there is only $400 billion left to support spending.

Source: FactSet

ECONOMY

- While the March FHFA Home Price Index came in stronger than expected (3.6% year-over-year (YoY)) and showed relatively resilient home prices, the S&P/Case-Shiller Home Price Index told the opposite story and printed the first negative YoY growth of -1.1% since May of 2012. These mixed data results can be interpreted as reflecting a weak but stabilizing housing market.
- Contrary to what the Federal Reserve (Fed) would want to see, Job Openings surpassed 10 million again in April. This will put some pressure on Fed officials to consider further rate hikes. However, we believe they will not move higher in June.
- ISM Manufacturing PMI (46.9) remained below 50—marking its seventh contractionary month in a row. However, the highlight of this report was the significant decrease in the Prices Paid component (-9%) which acts as a gauge for future headline inflation.
- Nonfarm payrolls increased by a more-than-expected 339k in May, adding more uncertainty around the Fed's next rate hike decision. On a positive note for the Fed, the unemployment rate increased to a 7-month high of 3.7% as more people joined the work force.
- **Focus of the Week:** Next week is relatively slower in terms of economic data releases. However, one notable report to watch will be the Trade Balance report on Wednesday, which can act as an indicator for consumer spending and economic activity. In addition, we expect the Services sector to remain in expansion in next week's print, as measured by the ISM Services PMI.

June 5 – June 9

MON ISM Services PMI
Durable/Factory Orders

TUE

WED Trade Balance
Consumer Credit

THU Wholesale Inventories
Jobless Claims

FRI

FUTURE EVENTS
6/13 CPI, Durable Orders
6/14 FOMC Meeting, PPI
6/15 Retail Sales

US EQUITY

- Market breadth continues to show weakness as an equal-weighted basket of just seven stocks (Apple, Microsoft, Alphabet, Amazon, Nvidia, Meta and Tesla) is up 75% YTD, while the other 493 stocks in the S&P 500 are up only 0.1%. The DJIA finished May with only five positive days, which is the fewest number of positive days in a month over the last decade.
- Artificial Intelligence, or AI, has ramped up in popularity as a talking point for S&P 500 companies. In the first quarter 110 different companies mentioned 'AI' on their earnings calls. This is by far the most in the last decade and easily surpasses the 5-year average of 57. Within sectors, 66% of Information Technology companies and 75% of Communication Services mentioned the term.
- In following with the AI theme, Apple's World-Wide Developers Conference (WWDC) starts June 5. In addition to routine business updates on software services and operating systems, markets will be listening for any updates on Apple's custom silicon aspirations and software related to development of artificial intelligence.
- **Focus of the week:** What is the Fed going to do on June 14? Expectations for the June 14 meeting continue to show extreme volatility ranging from a near 0% probability of a hike on May 11, to a 65% chance of a hike on May 30, and to a current (May 31) probability of ~29%. These large swings are market moving and could be a major driver of returns over the next week as expectations firm up. The path of interest rates will be a key factor in multiple expansion, debt service, and earnings growth.

FIXED INCOME

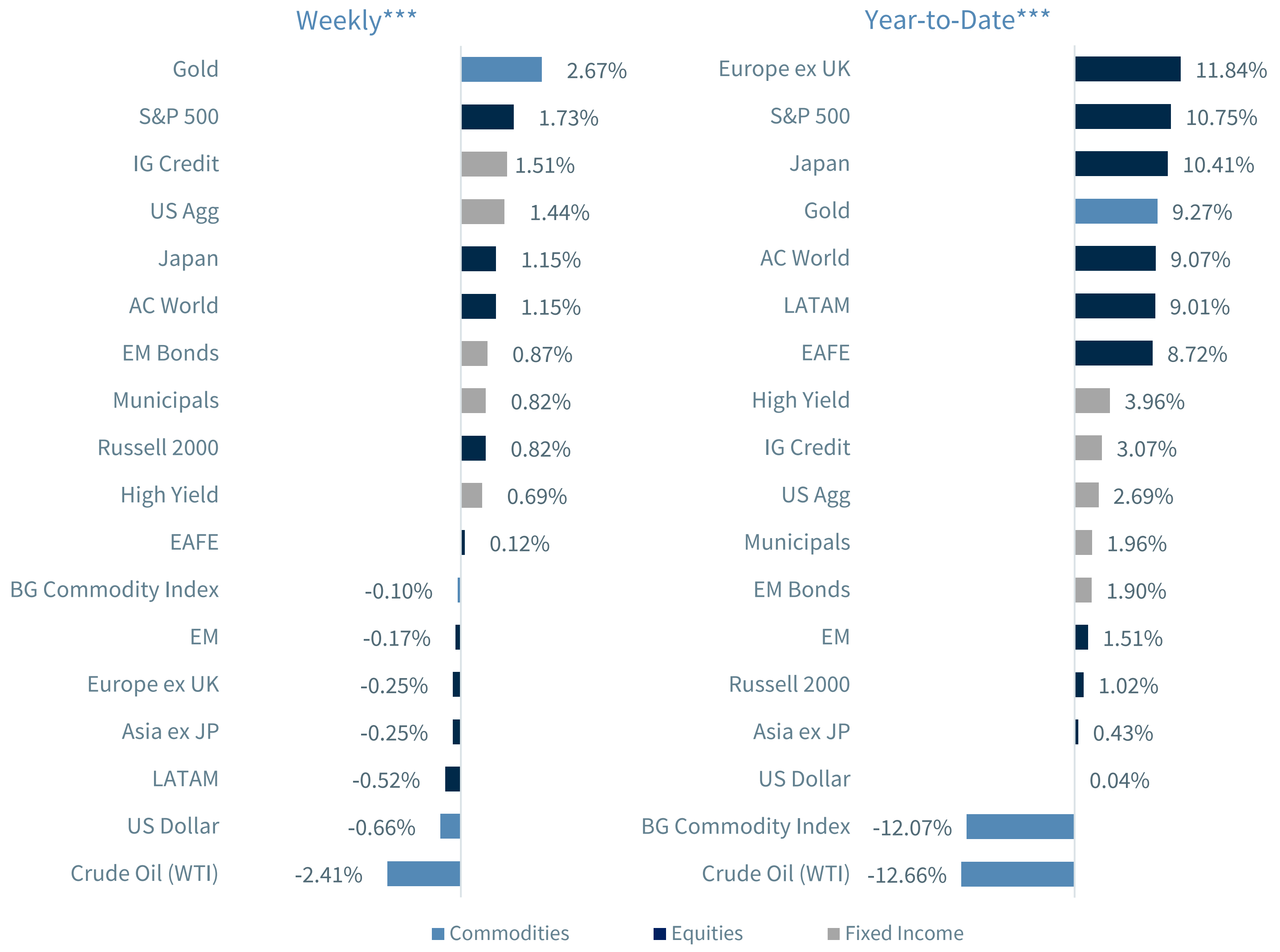
- While the views on the committee appear to be split, the latest comments from Fed officials (i.e., Harker and Jefferson) lean in favor of skipping a meeting so policymakers have time to assess the impact of the 500 basis points of cumulative tightening on the economy. With the odds now favoring a pause at the June meeting, Treasury yields have declined nearly 20 bps this week.
- Fitch has not provided any further updates since they placed the US' AAA sovereign debt rating on watch for a possible downgrade last week. Fitch was always likely to wait until the debt impasse is resolved, particularly given the last-minute negotiations have left the Treasury's General Account Balance in a precarious position with less than $50 billion on hand to cover expenses before the June 5 'x' date deadline. Fitch is following the same playbook that S&P did back in 2011, when S&P stripped the US' AAA-rating status after the debt ceiling impasse was resolved. While there remains a possibility that Fitch could still decide to lower the US' credit rating, we would not view this as a material risk to the market given the US' preeminent role in the financial markets.
- **Focus of the Week:** With Fed officials now in a blackout period in advance of the June meeting, the markets will no longer be swayed by Fed rhetoric. Attention will be focused on economic data. The Bank of Canada meets on June 7. While no policy changes are expected, stronger growth, spending and inflation data make it a close call.

ENERGY & SECURITY

- Oil prices touched year-to-date lows this week, following bearish economic data from China that compounded concerns about global oil demand. A recurring theme over the past six months is that the oil market is more fearful of weak demand than it is enthused by the prospect of curtailed supply. Rallies such as the one caused by the Saudi energy minister's warning to short sellers in May, or (more fundamentally) the OPEC production cut in March, tend to be brief, because investor attention remains firmly on macroeconomic headwinds and read-through for demand. Although there is nothing new at this point about monetary tightening around the world, this is where oil market sentiment continues to be focused. On deck: an OPEC meeting on June 4. The oil market is not pricing in additional OPEC production curtailment, but ironically, the lower prices go, the more likely OPEC will be to announce.

 *See Charts of the week on page 3.

Asset Class Performance | Weekly and Year-to-Date (as of June 1)**



**Weekly performance calculated from Thursday close to Thursday close.

***Assumes all asset classes are priced in US dollars unless otherwise noted. Ranked in order of performances (best to worst).

Weekly Data**

Data as of June 1

US Equities

Index	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
S&P 500	4221.0	1.7	1.0	10.8	4.7	13.2	11.0	12.1
DJ Industrial Average	33061.6	0.9	0.5	(0.3)	0.8	9.1	6.1	8.1
NASDAQ Composite Index	13101.0	3.2	1.3	25.2	9.2	11.1	11.6	14.3
Russell 1000	4437.3	1.8	1.0	10.4	2.4	12.5	10.6	11.8
Russell 2000	4393.8	0.8	1.1	1.0	(4.7)	9.2	2.7	7.4
Russell Midcap	6985.6	0.8	0.8	1.5	(4.5)	10.2	6.9	9.3

Equity Sectors

Sector	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
Materials	476.9	0.2	1.3	(1.7)	(8.6)	13.1	7.5	8.8
Industrials	827.2	0.5	1.3	0.3	6.1	15.0	7.5	10.4
Comm Services	213.1	2.8	1.2	34.3	7.5	6.3	9.4	6.5
Utilities	325.4	(0.2)	(0.7)	(7.9)	(10.5)	5.5	8.6	9.2
Consumer Discretionary	1202.5	3.5	1.2	20.2	1.3	6.8	8.4	11.9
Consumer Staples	756.4	(0.7)	(0.0)	(1.9)	2.0	10.4	11.3	9.2
Health Care	1496.2	0.7	0.7	(5.0)	0.4	9.9	11.1	12.3
Information Technology	2934.8	3.6	1.3	35.7	21.3	20.7	20.0	20.8
Energy	592.9	(1.9)	1.2	(10.3)	(7.8)	31.8	5.5	3.6
Financials	532.5	0.8	1.1	(5.7)	(5.9)	13.1	5.4	9.4
Real Estate	225.7	2.2	0.0	(1.7)	(14.5)	4.1	6.2	6.9

Fixed Income

Index	Yield	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
3-Months Treasury Bill (%)	5.2	0.1	0.0	1.9	3.3	1.2	1.5	0.9
2-Year Treasury (%)	4.3	0.4	0.1	1.3	(0.2)	(1.1)	0.9	0.6
10-Year Treasury (%)	3.6	1.8	0.2	3.2	(2.6)	(6.5)	0.7	0.8
Bloomberg US Corporate HY	8.8	0.7	0.3	4.0	0.4	2.9	3.1	4.0
Bloomberg US Aggregate	4.5	1.4	0.2	2.7	(1.6)	(3.6)	0.9	1.4
Bloomberg Municipals	--	0.8	0.3	2.0	0.6	(0.5)	1.7	2.3
Bloomberg IG Credit	5.3	1.5	0.3	3.1	(1.2)	(2.9)	1.7	2.3
Bloomberg EM Bonds	7.5	0.9	0.1	1.9	(0.3)	(2.4)	0.7	2.1

Commodities

Index	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
WTI Crude ($/bl)	70.1	(2.4)	3.0	(12.7)	(39.2)	25.5	1.3	(2.7)
Gold ($/Troy Oz)	1995.5	2.7	0.7	9.3	7.9	4.5	9.0	3.7
Bloomberg Commodity Index	99.2	(0.1)	1.3	(12.1)	(25.3)	16.0	1.9	(2.7)

Currencies

Currency	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
US Dollar Index	103.6	(0.7)	(0.7)	0.0	1.0	1.9	2.0	2.2
Euro	1.1	0.0	0.7	0.6	0.6	(1.2)	(1.7)	(1.9)
British Pound	1.3	1.5	1.0	4.1	0.2	0.1	(1.2)	(1.9)
Japanese Yen	138.9	0.6	0.6	(5.0)	(6.5)	(8.2)	(4.6)	(3.1)

International Equities

Index	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
MSCI AC World	653.0	1.1	1.0	9.1	3.2	10.6	7.4	8.5
MSCI EAFE	2070.1	0.1	1.4	8.7	5.9	9.1	3.9	5.2
MSCI Europe ex UK	2308.9	(0.3)	1.4	11.8	10.0	11.1	5.7	6.4
MSCI Japan	3422.3	1.2	1.5	10.4	6.3	5.0	2.6	5.5
MSCI EM	961.8	(0.2)	0.3	1.5	(6.9)	3.2	(0.4)	2.3
MSCI Asia ex JP	617.5	(0.3)	0.1	0.4	(7.0)	2.5	(0.4)	3.9
MSCI LATAM	2258.8	(0.5)	2.8	9.0	0.5	14.6	2.7	(0.3)
Canada S&P/TSX Composite	14563.9	(0.5)	0.5	1.5	(5.0)	8.9	4.2	4.5

**Weekly performance calculated from Thursday close to Thursday close.

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