June 11th, 2023

VERED WEALTH MANAGEMENT (CANADA) COMPANY LIMITED

Weekly Market Guide

After breaking above 4200 (and new year-to-date highs) last week, the S&P 500 has continued to drift higher with ~4325 the next key level of technical resistance. Friday's strong nonfarm payrolls number was the catalyst for a move by the lagging more economic-sensitive areas (i.e. small caps, transports, banks, etc.). This was a welcome sign for participation beneath the surface, as Technology has carried the index higher for weeks. **Ideally, rotation will continue to occur as Technology cools off and other areas catch up.**

The market upside is attempting to convince us that the bear market is over, but we do not believe an easy glide path higher is in the cards yet. We still fall into the camp that a recession (albeit mild) will develop in the later stages of this year, and economic volatilty will correspond with market volatility. To be sure, we respect the many positives that have transpired since the October lows. But the lagged effects of Fed tightening will be a headwind to economic growth ahead. For example, Tuesday's May ISM services survey weakened to 50.3 and showed order backlog down to 40.9 (lowest since '09 financial crisis).

We believe that choppiness is still a high probability for the market over the coming months. Sustainable upside will likely prove difficult unless we get information that a recession is not happening, or inflation is coming down quickly. Additionally, the market has been able to climb higher lately despite higher bond yields (diverging from a strong inverse correlation over the past couple years). We believe this is likely a function of investors chasing the momentum in Tech. With many Tech stocks now overbought, investors may not be able to continue ignoring rising real yields. Next week, we get plenty of potential catalysts- as May CPI comes on 6/13, May PPI 6/14, and the FOMC announcement 6/14. If rate hike expectations continue to climb and bond yields move higher, valuation multiples are likely to compress and drag down equities. If bond yields turn lower (on better than expected inflation and/or dovish Fed comments), the market's expanded multiple may be justified. Stay tuned.

Despite our rangebound view for equities, there is still plenty to do. Technology's strength has brought the group to overbought conditions, from which it makes logical sense to see a pause or pullback develop. There is the potential for some catch-up from the lagging areas. Consumer Discretionary (equally-weighted) and Industrials contain the best fundamental and price trends among the more economic-sensitive groups. Investors looking to increase exposure can use their recent weakness as opportunity to accumulate as needed.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	1.3%	2.0%
S&P 500	11.6%	3.9%
S&P 500 (Equal-Weight)	1.8%	-3.0%
NASDAQ Composite	26.8%	10.1%
Russell 2000	5.3%	-1.8%
MSCI All-Cap World	9.8%	1.9%
MSCI Developed Markets	8.3%	3.2%
MSCI Emerging Markets	3.4%	-7.7%
NYSE Alerian MLP	4.2%	0.0%
MSCI U.S. REIT	1.8%	-11.8%

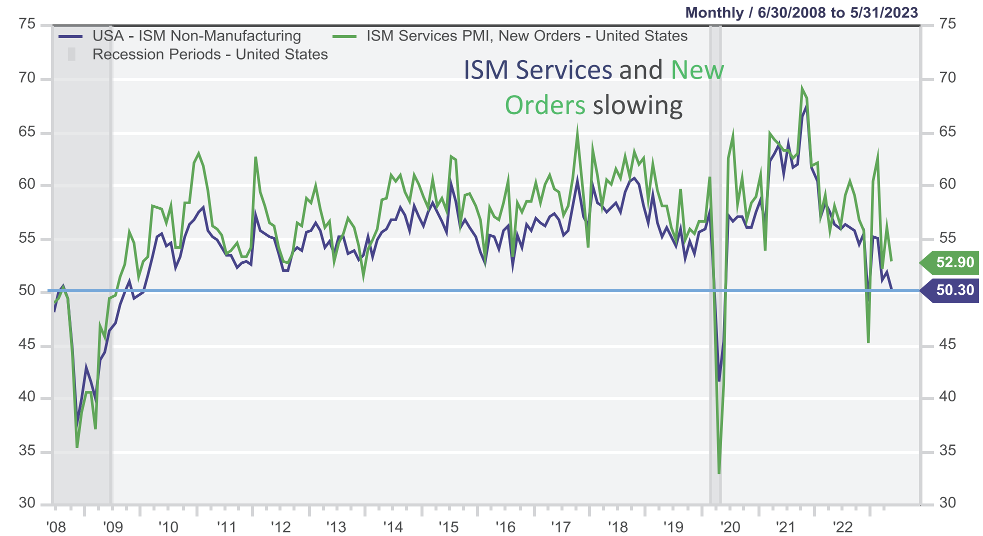
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Communication Svcs.	35.3%	8.8%
Information Technology	34.9%	27.7%
Consumer Discretionary	23.9%	10.4%
S&P 500	***11.6%***	-
Industrials	2.3%	8.4%
Materials	1.3%	2.5%
Real Estate	-0.7%	2.3%
Consumer Staples	-2.4%	6.8%
Financials	-3.8%	12.7%
Health Care	-4.8%	13.6%
Utilities	-8.0%	2.6%
Energy	-9.1%	4.3%

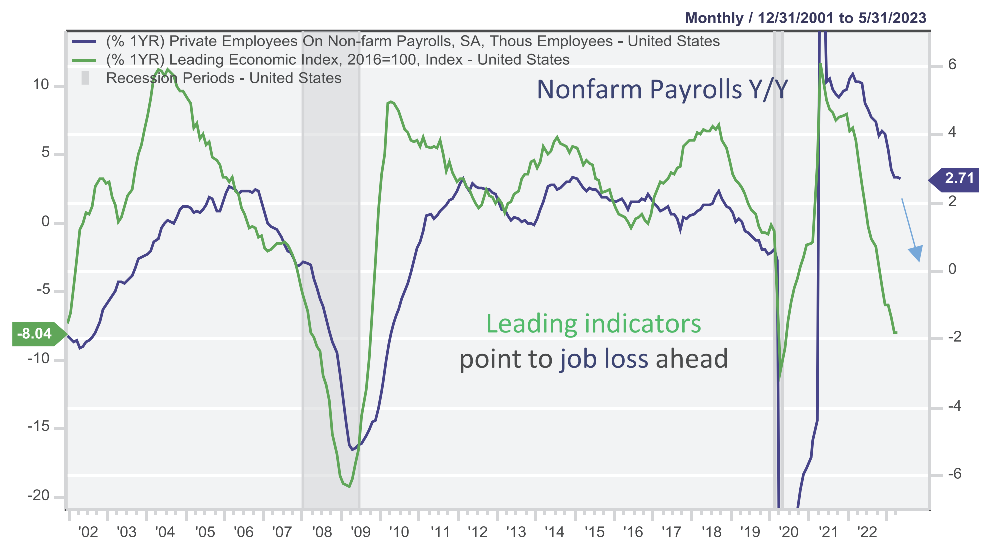
Source: FactSet

MACRO: US

May nonfarm payrolls grew much better than expected in May- driven by service-producing industries which grew by 257k in May vs 26k for goods-producing industries. Service-producing industries have now grown payrolls by 1.15M in 2023, while goods-producing industries have only grown by 94k. In essence, service-producing industries (that were beaten up during the Covid shutdown) are supporting the jobs market, as they absorb job weakness in goods-producing industries (that benefitted during Covid). This is part of the economic normalization process, as both areas move back to their pre-Covid trendlines. But we still expect job weakness ahead. Employment is a lagging indicator, and leading indicators continue to point toward economic contraction ahead. Service economy normalization has cushioned weakness elsewhere, but even May ISM Services moved down to 50.3 and new orders declined to 52.9. Additionally, ISM service order backlog moved to its lowest levels since the financial crisis in 2009.

Event	Period	Actual	Consensus	Prior
ADP Employment Survey SA	MAY	278.0K	170.0K	291.0K
Continuing Jobless Claims SA	05/20	1,795K	1,803K	1,789K
Initial Claims SA	05/27	232.0K	235.0K	230.0K
Unit Labor Costs SAAR Q/Q (Final)	Q1	4.2%	6.3%	6.3%
Productivity SAAR Q/Q (Final)	Q1	-2.1%	-2.6%	-2.7%
Markit PMI Manufacturing SA (Final)	MAY	48.4	48.5	48.5
Construction Spending SA M/M	APR	1.2%	0.10%	0.33%
ISM Manufacturing SA	MAY	46.9	47.0	47.1
Hourly Earnings SA M/M (Preliminary)	MAY	0.30%	0.30%	0.40%
Hourly Earnings Y/Y (Preliminary)	MAY	4.3%	4.4%	4.4%
Nonfarm Payrolls SA	MAY	339.0K	188.0K	294.0K
Unemployment Rate	MAY	3.7%	3.5%	3.4%
PMI Composite SA (Final)	MAY	54.3	54.5	54.5
Markit PMI Services SA (Final)	MAY	54.9	55.1	55.1
Durable Orders ex-Transportation SA M/M (Final)	APR	-0.29%	-0.10%	-0.20%
Durable Orders SA M/M (Final)	APR	1.1%	1.1%	1.1%
Factory Orders SA M/M	APR	0.40%	0.80%	0.60%
ISM Services PMI SA	MAY	50.3	52.1	51.9



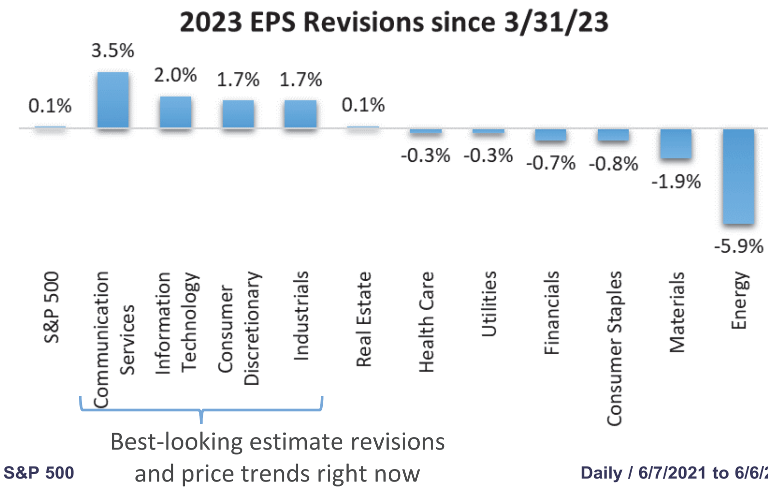


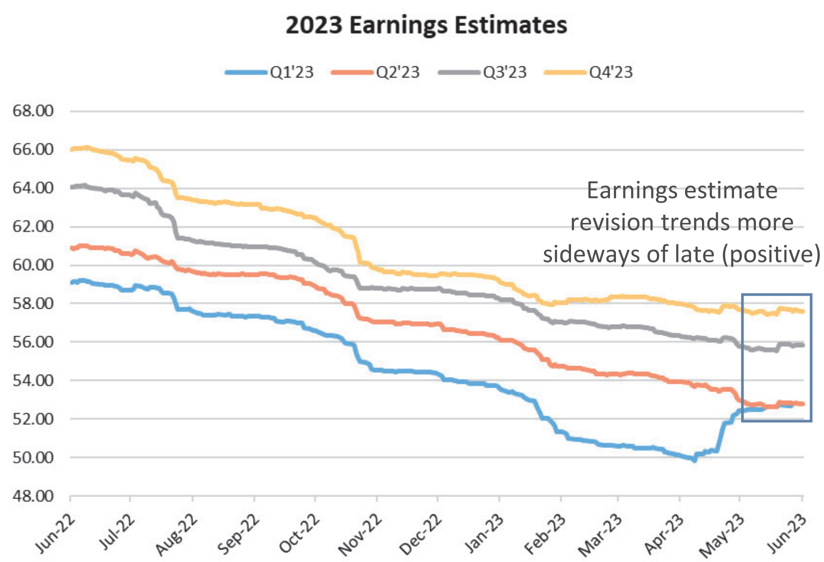
Source: FactSet

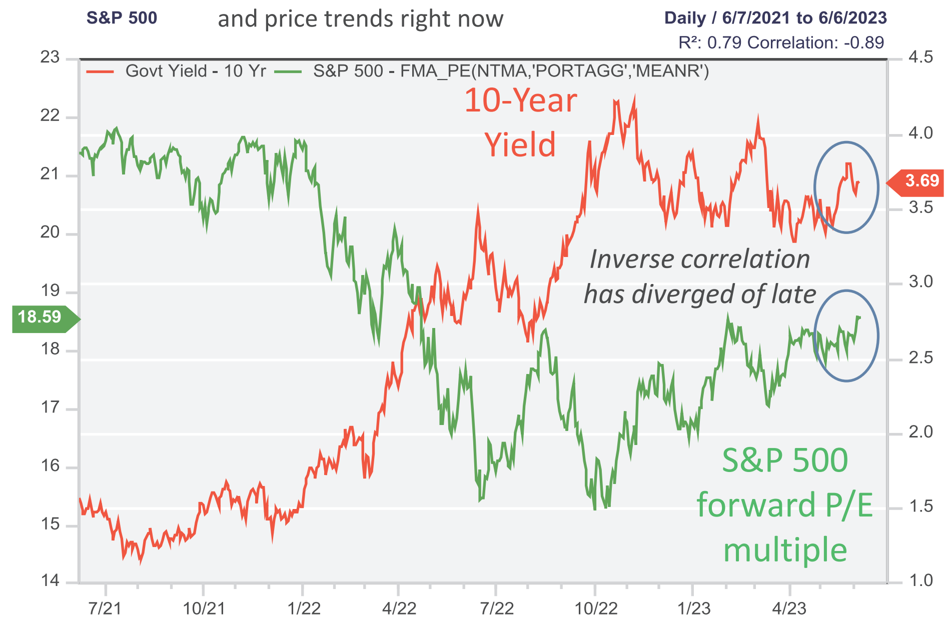
FUNDAMENTALS

An early look at Q2 earnings season shows slowing growth- 0.2% earnings growth q/q and -5.3% y/y for the S&P 500. Encouragingly, estimate revision trends have flattened out since Q1 earnings season, breaking the trend over recent quarters of substantial gap-downs in forward estimates. We'll see how sustainable that is, given our view that the economy is highly likely to weaken ahead and earnings typically bottoms well after recessions end.

Also, important to remember that valuation is usually the driver of returns out of recessions, with investors discounting the eventual recovery. As investors gain a degree of clarity on inflation, Fed policy, and economic damage, P/E multiples will drive equities higher over the next 12 months- but that clarity is likely to take time. Multiples have been able to expand in the face of higher yields lately. This is unlikely to continue, and next week's inflation and FOMC reports will be key catalysts to monitor.







Source: FactSet

TECHNICAL: S&P 500

Source: FactSet

The S&P 500 was able to break above the ~4200 level over the past week and move to new YTD highs. Watch the 4310-4325 area as the next key area of resistance, followed by 4431. On the downside, ~4200 now becomes support, followed by the 50 DMA (4140) and 200 DMA (3975).

The market upside is attempting to convince us that the bear market is over, but we are not convinced that a glide path higher is in the cards yet. We still fall into the camp that a recession (albeit mild) will develop in the later stages of this year.

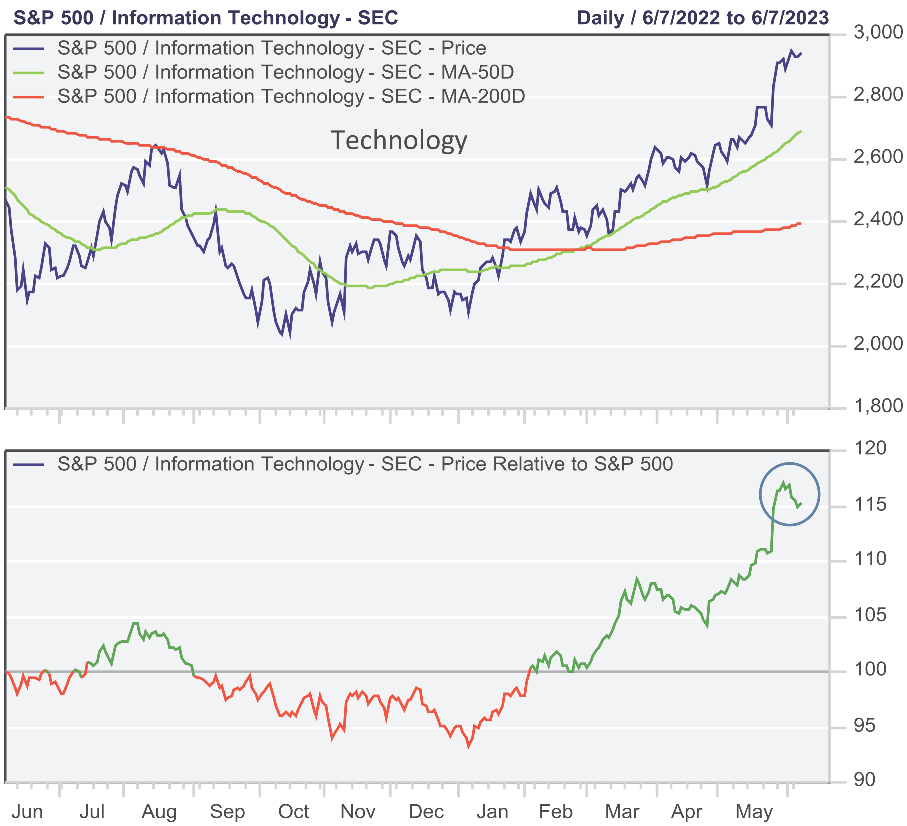
To be sure, we respect the many positives that have transpired since the October lows, and we do maintain a positive equity market outlook over the next 12 months.

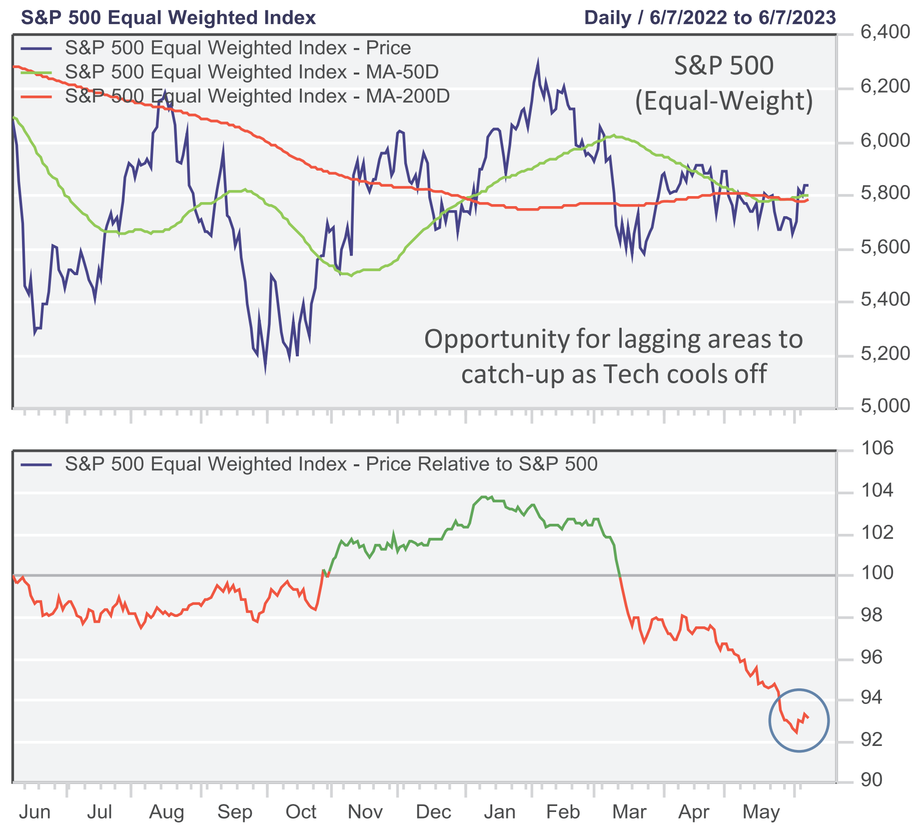
But we believe that choppiness is still a high probability for the market over the coming months. Sustainable upside is likely to prove difficult unless we get information that a recession is not happening, or inflation is coming down quickly.

In that potential range-bound, choppy environment, we would refrain from chasing areas higher and use the drawdown periods as opportunity.

TECH OVERBOUGHT, OPPORTUNITY FOR ROTATION

Technology has reached ~10% above its 50-day moving average, driven by fundamental strength from the mega-caps and AI enthusiasm in the future. While the trend is up since the October lows and fundamentals are supporting the strength, it is logical for the sector to pause or pullback in order to digest the move. Ideally, rotation will occur as Technology cools off and other areas catch up. The degree of underperformance over the past 3 months for the S&P 500 equally-weighted index is historically extreme. A rotating market may not move much at the index level, but stronger breadth would be a positive for the overall backdrop.





Source: FactSet

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