June 19th, 2023

VERED WEALTH MANAGEMENT (CANADA) COMPANY LIMITED

Weekly Market Guide

The recent S&P 500 price momentum is attempting to convince us that the bear market is over and equities are ready for a glide path back to highs. **In the last week, the S&P 500 was able to break above the August 4325 high and the 61.8% Fibonacci retracement level around 4311 (from the January 2022 peak to October 2022 low).** However, we remain skeptical it will be that easy as we believe there is still work to be done.

- The economy is likely to weaken further (our base case remains that a recession will develop later this year) as leading indicators and the yield curve continue to suggest further weakness ahead. However, **we do believe odds are increasing that the lows are in, and any pullbacks are likely contained and should be buyable.**
- Recent strength has been very one-sided in Tech with the top 10 heavyweights accounting for ~89% of the ~14% YTD gains for the S&P 500. **We would be more convinced if a broadening out of breadth proves sustainable especially in the areas that have lagged such as small-caps and the equal-weighted index.** Ideally, rotation will continue to occur as Technology cools off and other areas catch up.
- The S&P 500 is very overbought currently, and a period of consolidation could transpire in the coming weeks and months.

In that potential range-bound, choppy environment, we would refrain from chasing rallies and use the drawdown periods as opportunity. We would look at the 4370-4380 as the next area of resistance followed by 4431. As for support, we continue to see the 4200 level followed by the upward sloping 50-DMA around 4167 as the best near-term support.

From a macro perspective, the economic calendar was relatively light over the last week, but contained crucial inflation data, which likely keeps the Fed data dependent on the path forward. The Fed, which announced to not raise rates at its meeting today, continues to get more cover for a “pause” given the strong labor market (despite some increase in initial jobless claims last week) and moderating inflation. However, as the Fed signaled during the FOMC meeting, its job is not yet done on inflation and further rate hikes may be necessary if inflation doesn’t cool more. Despite inflation offs its peak levels, inflation is still elevated with the latest reading for core CPI coming in at 5.3% YoY, an increase of 0.4% MoM, and headline CPI at 4% YoY, up 0.1% MoM, which suggests that the Fed still has work to do to return inflation towards its goal of 2%. In order to get below 4% inflation for core CPI by year-end, inflation would have to increase by less than 20 bps MoM each month for the remainder of the year, which has been a challenge since COVID. The path of the Fed and inflation will continue to be key macro inputs to market sentiment for equities.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	3.2%	12.1%
S&P 500	13.8%	16.5%
S&P 500 (Equal-Weight)	4.1%	9.4%
NASDAQ Composite	29.7%	25.6%
Russell 2000	7.7%	10.6%
MSCI All-Cap World	11.8%	13.3%
MSCI Developed Markets	9.9%	13.8%
MSCI Emerging Markets	5.9%	-0.3%
NYSE Alerian MLP	3.4%	8.0%
MSCI U.S. REIT	2.7%	-1.2%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Information Technology	38.7%	27.9%
Communication Svcs.	35.2%	8.6%
Consumer Discretionary	28.7%	10.6%
S&P 500	***13.8%***	-
Industrials	5.8%	8.5%
Materials	4.1%	2.5%
Real Estate	0.4%	2.3%
Consumer Staples	-1.7%	6.7%
Financials	-3.0%	12.5%
Health Care	-3.5%	13.5%
Utilities	-6.8%	2.6%
Energy	-8.1%	4.2%

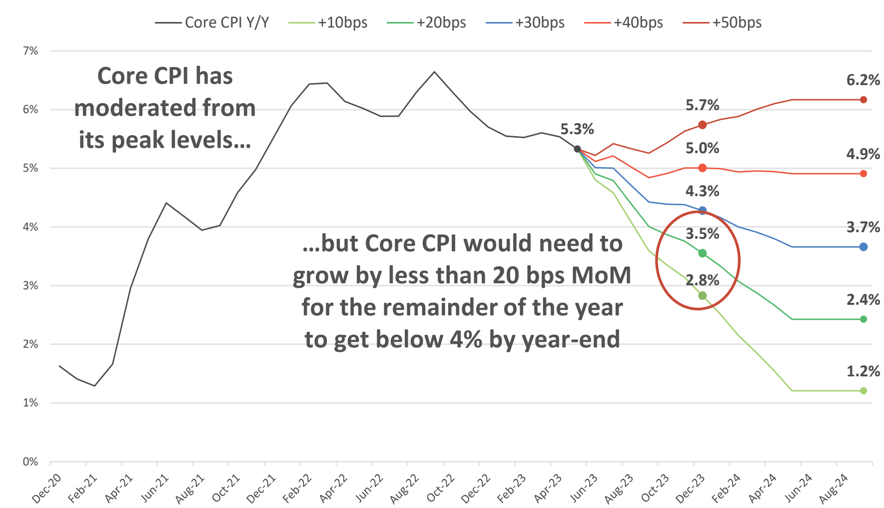
Source: FactSet

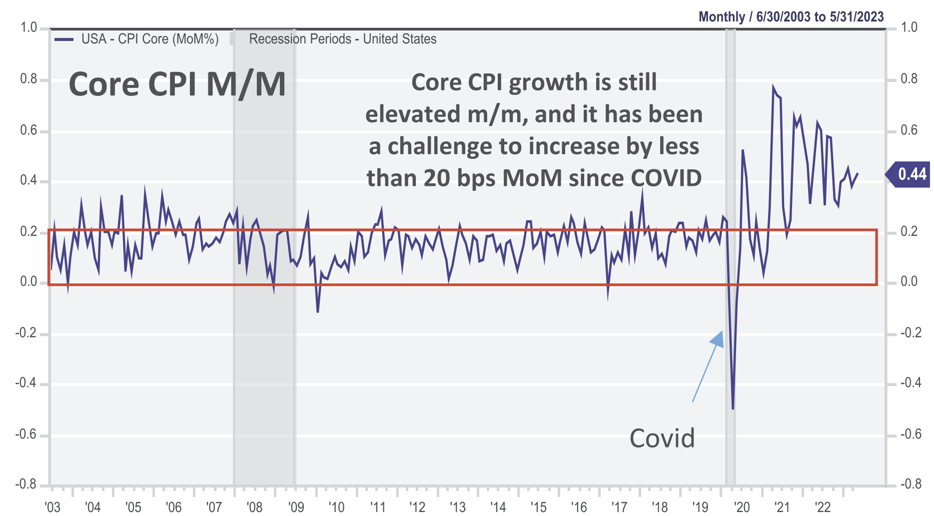
MACRO: US

Overall, the macro calendar was relatively light this week, but contained crucial inflation data, which likely keeps the Fed data dependent on the path forward. The Fed, which announced to not raise rates at its meeting today, continues to get more cover for a “pause” given the strong labor market (despite some increase in initial jobless claims last week) and moderating inflation. Despite inflation off its peak levels, inflation is still elevated with the latest reading for core CPI coming in at 5.3% YoY, an increase of 0.4% MoM, and headline CPI at 4% YoY, up 0.1% MoM, which suggests that the Fed still has work to do to return inflation towards its goal of 2%. As seen to the right, in order to get below 4% inflation for core CPI by year-end, inflation would have to increase by less than 20 bps MoM each month for the remainder of the year, which has been a challenge since COVID (seen to the lower right). The path of the Fed and inflation will continue to be key macro inputs to market sentiment for equities.

Event	Period	Actual	Consensus	Surprise	Prior
Continuing Jobless Claims SA	05/27	1,757K	1,808K	-51.0K	1,794K
Initial Claims SA	06/03	261.0K	239.0K	22.0K	233.0K
Wholesale Inventories SA M/M (Final)	APR	-0.10%	-0.20%	0.10%	-0.20%
Wholesale Trade SA M/M	APR	0.20%	-	-	-2.7%
NFIB Small Business Index	MAY	89.4	-	-	89.0
CPI ex-Food & Energy SA M/M	MAY	0.40%	0.40%	-0.0%	0.40%
CPI ex-Food & Energy NSA Y/Y	MAY	5.3%	5.2%	0.10%	5.5%
CPI SA M/M	MAY	0.10%	0.20%	-0.10%	0.40%
CPI NSA Y/Y	MAY	4.0%	4.1%	-0.11%	4.9%
Hourly Earnings SA M/M (Final)	MAY	0.30%	-	-	0.30%
Hourly Earnings Y/Y (Final)	MAY	4.3%	4.3%	-0.0%	4.3%
Average Workweek SA (Final)	MAY	34.3	-	-	34.3
Redbook Y/Y	06/10	0.40%	-	-	0.60%
MBA Mortgage Applications SA W/W	06/09	7.2%	-	-	-1.4%
PPI ex-Food & Energy SA M/M	MAY	0.20%	0.20%	-0.0%	0.0%
PPI ex-Food & Energy NSA Y/Y	MAY	2.8%	2.9%	-0.09%	3.1%
PPI ex-Food, Energy & Trade SA M/M	MAY	0.0%	-	-	0.10%
PPI ex-Food, Energy & Trade NSA Y/Y	MAY	2.8%	-	-	3.3%
PPI SA M/M	MAY	-0.30%	-0.10%	-0.20%	0.20%
PPI NSA Y/Y	MAY	1.1%	1.5%	-0.41%	2.3%

Core CPI Y/Y Based on Potential M/M Growth Rates





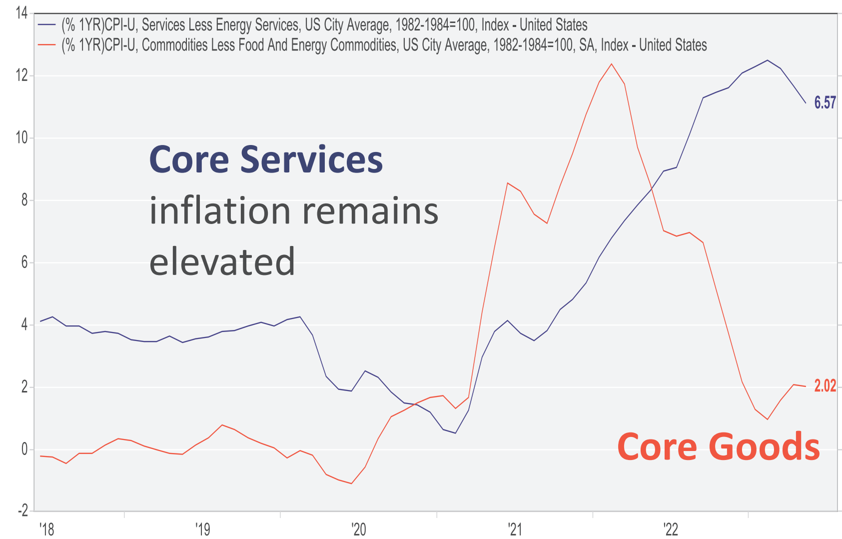
Source: FactSet

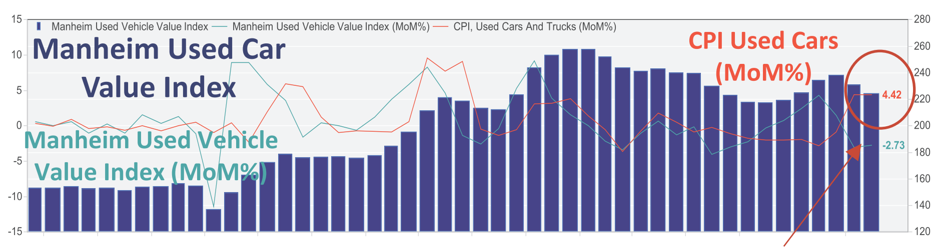
INFLATION

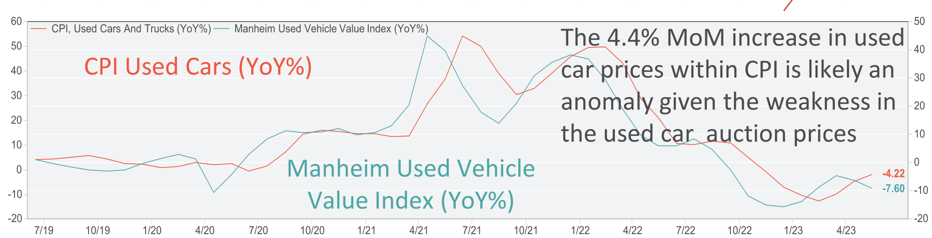
Given the importance of inflation to market sentiment and the path forward for the Fed, we thought it was important to take a closer look at some of the components that have influenced the elevated inflation readings—namely Core Services, Shelter, and the latest reading of used car prices.

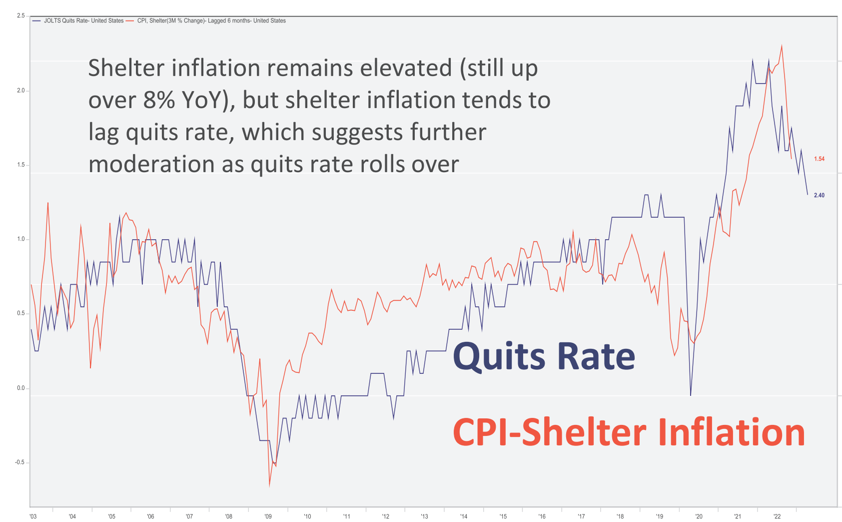
As seen to the right, Core Goods inflation is relatively contained near 2%. One of the components that was surprisingly higher-than-expected was used car prices, which increased 4.4% MoM (although still down 4% YoY). This deviates from the used car auction prices in the Manheim index (seen below), which declined over 2% in its latest reading, suggesting that the used car data within CPI may be an outlier this month and should revert to the recent trend of being contained.

Core Services inflation remains sticky as shelter is still up over 8% YoY. Excluding shelter, services is up only 4.2% YoY. However, we are seeing signs that inflation for Shelter could see moderation (as seen below to the right). Historically, there has been a correlation between the Quits Rate and Shelter inflation. While shelter inflation lags, as the economy softens and quits rate declines (as workers don't feel as confident in the ability to find new employment) inflation on shelter tends moderate, which suggests the decline we have seen recently could continue.









Source: FactSet

TECHNICAL: S&P 500

Source: FactSet

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- The economy is likely to weaken further (our base case remains that a recession will develop later this year) as leading indicators and the yield curve continue to suggest further weakness ahead. However, we do believe odds are increasing that the lows are in, and any pullbacks could be buyable.
- Recent strength has been very one-sided in Tech (albeit some improvement recently in the laggards). We would be more convinced if a broadening out of breadth proves sustainable.
- The S&P 500 is very overbought currently, and a period of consolidation could transpire.

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

The S&P 500 continues to blow through resistance. In the last week, the S&P 500 was able to break above the August 4325 high and the 61.8% Fibonacci retracement level around 4311 (from the January 2022 peak to October 2022 low). However, we would look at the 4370-4380 as the next area of resistance followed by 4431. As for support, we continue to see the 4200 level followed by the upward sloping 50-DMA around 4167 as the best near-term support.

BIFURCATED MARKET

The market remains one-sided with the Tech heavyweights leading the way. As seen below, the top 10 Tech heavyweights (which accounted for ~21% of the S&P 500 market cap at the beginning of the year) have contributed ~89% of the 13.8% gains seen in the S&P 500 YTD. This is in sharp contrast to the ~3.9% YTD gains seen in the average stock (S&P 500 equal-weighted index). A broadening out of breadth would be positive for investors that have not piled into large-cap Tech and would increase our confidence that a move higher could be sustained.

Source: FactSet

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