July 3rd, 2023

VERED WEALTH MANAGEMENT (CANADA) COMPANY LIMITED

Thoughts of the Week

This weekend marks the official start of the Tour de France—one of the biggest cycling events in the world! Cyclists begin their journey in Bilboa, Spain and over the next 23 days will traverse through challenging terrain, covering a grueling ~2,200 miles. While the race always has 21 stages, the route is different each year. And just like the Tour de France, no two economic and market cycles are alike. This cycle has been particularly challenging as the course weaved through a once in a generation pandemic, historic amounts of fiscal and monetary stimulus, soaring inflation, a war and the most aggressive tightening cycle in decades. With the economy and markets preparing to move onto the next stage, we use the Tour as a metaphor to describe our outlook. For a more detailed analysis, join our Quarterly Coordinates webinar on Monday, July 10 at 4:00 PM. Here's a sneak peek of what to expect:

Key Takeaways

Economy Is Normalizing As Stimulus Wears Off

The Fed Is Nearing The Finish Line

Equities Entering A New, More Challenging Stage

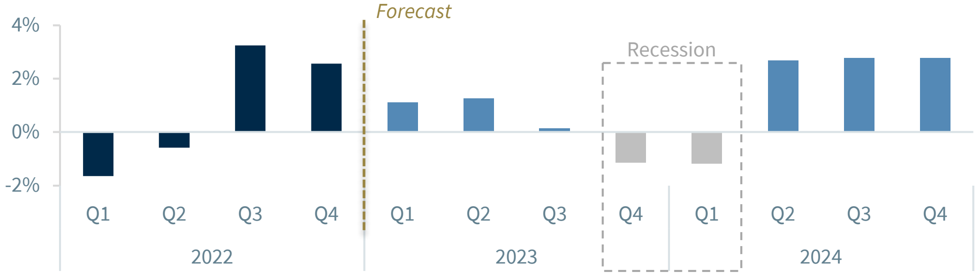
- **Economy Set To Normalize As Fiscal And Monetary 'Doping' Wanes |** The US economy has continued to defy recession calls, thanks in part to all the fiscal and monetary support it received after the pandemic. All that 'doping' led to a strong recovery, which the markets initially cheered, but eventually led to the unpleasant side effect of soaring inflation. Federal Reserve (Fed) officials responded aggressively to clamp down inflation, lifting interest rates at their fastest pace in decades. The Fed's medicine is working, with growth and inflation downshifting from 2022's pace. And now that the 'doping' effects are wearing off, consumers are showing signs of fatigue (i.e., dwindling excess savings, higher debt servicing costs). Going forward, the economy will need to grow on its own merits, without all that artificial stimulus. The combination of higher interest rates, tighter credit conditions and slowing job growth should steer the economy into a mild recession, starting in Q4 2023.
- **The Fed Is Nearing The Tightening Cycle 'Finish Line' |** After 500 basis points (5%) of cumulative tightening over the last fifteen months, the Fed is getting close to the finish line. Restrictive interest rates are having the desired effect—inflation is rapidly decelerating (4.0% YoY in May*), growth appears to be slowing, and the labor market is becoming more balanced (i.e., rising jobless claims, declining quits rates, fewer job openings). While growth and inflation are moving in the right direction, Fed policymakers have maintained their tightening bias as inflation remains above their 2.0% target. Given the long and variable lags in monetary policy, Fed officials are slowing down the pace of tightening to see what impact higher rates are having on the economy. However, one more rate hike may still be needed, which will push the fed funds rate up to 5.25% to 5.5% by year end. But as the disinflationary trend continues and growth decelerates to a 0.5-0.7% pace in 2024, a 4.0% fed funds rate is now in sight by year end 2024.*
- **Next Stage For Interest Rates Is A 'Downhill Glide' |** Interest rates have endured a tumultuous climb, but as we near the peak in the fed funds rate, Treasury yields are set to enter the next stage. Slowing growth, declining inflation and the prospect of less restrictive policy in 2024 suggest Treasury yields are poised for a downhill glide. In fact, we expect the 10-year Treasury yield to reach 3.25% by year end as these economic trends become more visible in the official statistics.* With the yield curve still deeply inverted and cash equivalents yielding above 5%, investors should be mindful of reinvestment risk (i.e., the possibility of reinvesting at a lower yield). The combination of healthy coupon yields and the opportunity for capital gains once yields start to decline (as they typically do after the Fed concludes its tightening cycle) suggests it may be prudent to lock in longer maturity yields. A prolonged period of subdued growth could create challenges for lower-quality credits (i.e., high yield), therefore we prefer to play it safe and focus on high-quality bonds (i.e., Treasurys, investment grade corporates and munis).
- **Equities To Enter A New, More Challenging Stage |** Our out of consensus, positive outlook on the equity market at the beginning of the year has paid off, with the S&P 500 delivering a ~15% gain YTD and nearing our 4,400 year-end target earlier than we expected. As we discussed in prior *Weekly Headings*, we have become more cautious on the equity market in recent weeks. Our rationale for dialing back our optimism was due to the steady climb in bullish sentiment flagged in the AAII Investor Sentiment Survey and relative strength indicators moving into overbought territory. These technical indicators, combined with other Wall Street firms rushing to lift their year-end S&P 500 price targets in recent weeks, indicated that much of the good news had been priced in—suggesting the market had entered into a more vulnerable position, susceptible to disappointment. However, longer term, we remain optimistic and expect the S&P 500 will grind higher over the next twelve months to at least 4,600 as macro tailwinds (i.e., the Fed concludes its tightening cycle, declining interest rates, resilient margins, and record cash on the sidelines) provide a more supportive backdrop for equities.

For a more in-depth discussion of our outlook and key insights from our quarterly Investment Strategy Survey, please register for our July 10 webinar using this link. Follow my Twitter and LinkedIn accounts for the replay or check RJNet .

CHART OF THE WEEK

Mild Recession Late This Year Remains Likely

The US economy will slide into a mild recession later this year as the impact of higher interest rates, evaporating savings and slower job growth starts to weigh on the consumer.



ECONOMY

- Housing data this week exhibited some strength, with New Home Sales unexpectedly increasing 12.3% month-over-month (MoM)—reaching its highest level since February 2022, but Pending Home Sales—a precursor to Existing Home Sales—decreased 2.7% MoM. This mismatch can be attributed to very low inventory of existing homes for sale and buyers flocking to buy new homes instead.
- The report on Personal Income and Expenditures was an overall good report, with consumption (0.1% MoM) slowing down and disposable personal income (0.4% MoM) continuing to increase—thereby increasing the Personal Saving Rate (4.6% MoM). In addition, the price index for personal consumption expenditures (PCE)—the Federal Reserve's preferred inflation metric—increased at its slowest pace (3.8% YoY) since April 2021 while the stickier core PCE increased 4.6% YoY.*
- **Focus of the Week:** The four-day week is heavy with important economic data releases. When it comes to employment, we will be monitoring two important reports: the JOLTS report coming out next Thursday which we expect to reflect fewer job openings, and the employment report on Friday, where we expect the number of jobs added to decelerate to ~195k. In addition, both manufacturing and services ISM surveys will be released next week, and we expect the manufacturing sector to remain in contraction for the eighth consecutive month, while the services sector to remain in expansion.

July 3 – July 7

MON	Construction Spending ISM Manufacturing	WED	Durable/Factory Orders FOMC Minutes	FRI	Employment Report
TUE	Independence Day (*markets closed*)	THU	JOLTS Trade Balance ISM Services	FUTURE EVENTS	7/11 NFIB Small Business Index 7/12 CPI 7/13 PPI

US EQUITY

- Since achieving a 2023 high intraday on June 16 the S&P 500 has fallen six of nine days but does appear to be in a normal consolidation. After bottoming on the 6/26, the Index is up over 1.5%. The 4,200 S&P 500 Index level should provide strong support.
- Breadth is slowly improving as the S&P 500 Equal Weight Index bounced from its 50 and 200 day moving average support. The Russell 2000 has been outperforming the S&P 500 in June as another sign of a breadth turnaround.* Small caps gave back much of their edge in the recent pullback but had a stellar week returning over 3% to reclaim their performance advantage over the S&P 500.
- Over the last couple of weeks, the market has begun pricing in increased odds for summer rate hikes as well as a higher for longer scenario. This scenario slows down multi-year earnings growth as well as near-term multiple expansion. Markets tend to enter into a prolonged positive trend once the Federal Reserve (Fed) begins cutting rates or at least once the picture becomes clear.
- **Focus of the week:** Markets have been consolidating over the past few weeks, so for the near-term trend to resume its positive move the market wants to see positive news coming in from the economy, inflation, and the upcoming second quarter earnings season. More evidence of a soft landing combined with declining inflation may provide a catalyst to jolt the S&P 500 out of this brief consolidation. Next week is surprisingly busy with multiple economic reports to keep an eye on with the ever-important CPI number coming in the following week. Earnings expectations have risen for the second quarter and the next 12 months which may provide further support for the newfound bull market.

FIXED INCOME

- The sharp upward revision to Q1 GDP (from 1.3% to 2.0%) pushed Treasury yields to their highest levels in over three months. The stronger-than-expected data lifted interest rates across the curve, deepening the yield curve inversion and pushing the 3-month to 10-year Treasury spread to ~160 bps. This yield curve has been inverted for 167 days, its longest streak since May 2007.* While some market pundits are questioning whether the yield curve is still a reliable indicator of a recession, history says otherwise. The Fed released the results of its latest bank stress tests, which only cover 23 of the largest banks, and they all had sufficient capital to absorb losses. It is worth noting that the smaller banks are exempt from the Fed's testing requirements.
- **Focus of the Week:** After this week's stronger than expected data, the market will pay close attention to the FOMC minutes and employment reports to gauge the market's next direction, particularly with yields climbing higher in recent weeks.

POLITICS

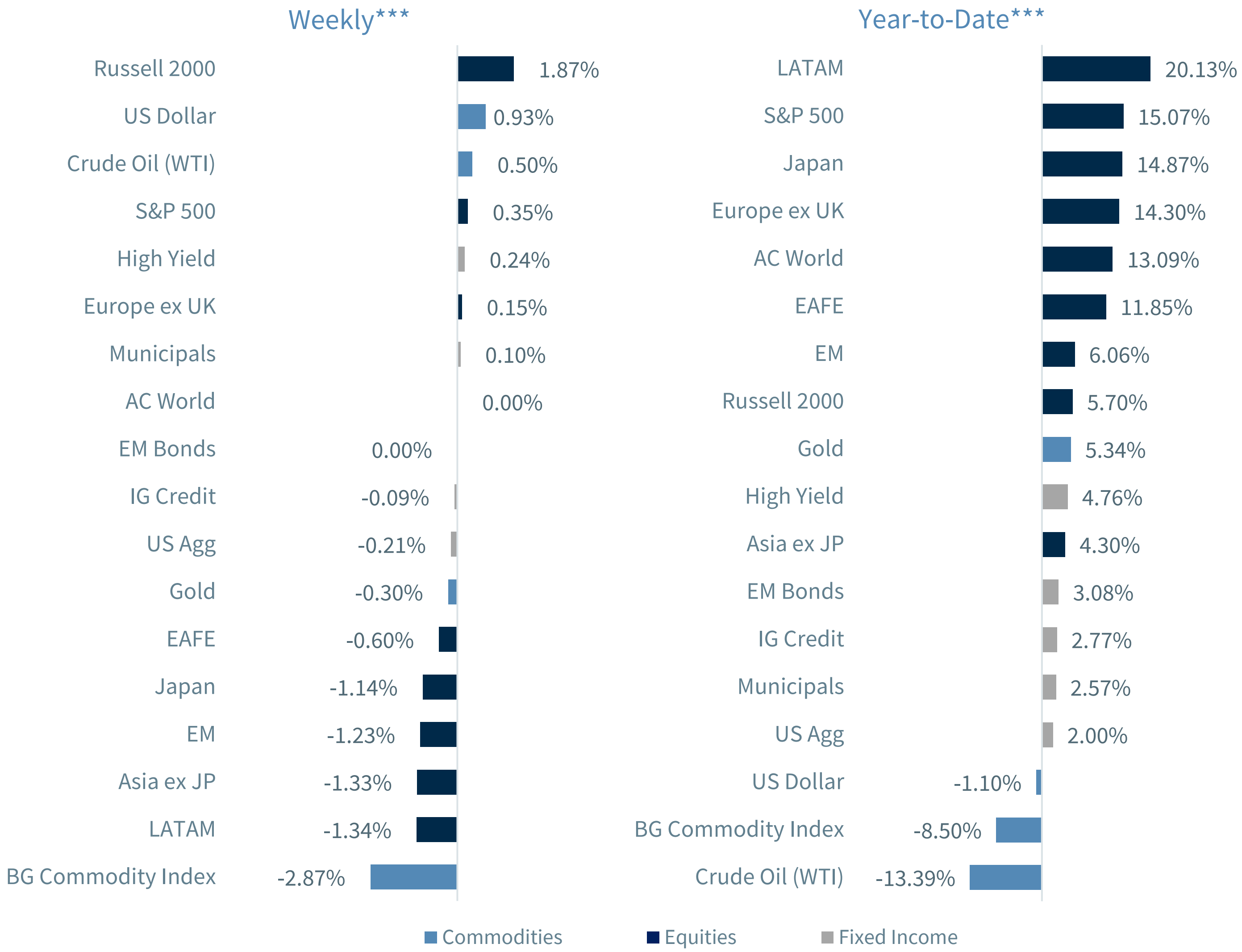
- The uprising of the Wagner Group (the private military contractor involved heavily with Russia's ongoing war efforts in Ukraine) over last weekend has set the stage for considerable uncertainty around the domestic political situation in Russia, driving new macro volatility to monitor in the coming months. While the Wagner Group's march towards Moscow was ultimately stopped and a deal brokered by Belarusian President Aleksandr Lukashenko saw Wagner Group leader Yevgeny Prigozhin retreat to Minsk, the path forward for Russian leadership remains unclear. President Vladimir Putin now faces additional pressure to wrap up the war in Ukraine, and we view attempts by Putin to reassert control and limit internal dissent through a material escalation as the most significant near-term threat to markets. Other macro catalysts to watch will include the impending expiration of the Black Sea grain deal, the trajectory of Ukraine's ongoing counteroffensive, and the G20 Summit in September.

ENERGY

- This week, the head of the world's largest asset manager—Larry Fink at BlackRock—lamented the fact that 'ESG' has become too politicized. But investing has always been part of the broader political (and ethical) conversation. Long before anyone used the acronym ESG, investment funds managed by religious institutions avoided certain industries, such as alcohol and gambling. In the 1980s, students demanded that their colleges divest from companies that did business in apartheid-era South Africa. Now the focus is often on climate issues, with a growing number of funds divesting from coal or (less commonly) all types of fossil fuels. There is sometimes an impression that ESG investing must be in conflict with making money, but the reality is more nuanced. ESG funds tend to be overweight growth stocks, especially tech, which did well in 2020 and 2023 but underperformed in 2021 and 2022. In other words, different industries are prone to different trading patterns—there is no universal rule.

*See Charts of the week on page 3.

Asset Class Performance | Weekly and Year-to-Date (as of June 29)**



**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 29

US Equities

Index	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
S&P 500	4396.4	0.3	5.3	15.5	17.1	14.7	12.0	12.7
DJ Industrial Average	34122.4	0.5	3.7	2.9	10.0	10.1	7.1	8.6
NASDAQ Composite Index	13591.3	(0.3)	5.1	29.9	21.6	11.2	12.6	14.8
Russell 1000	4629.6	0.5	5.5	15.3	2.4	12.5	10.6	11.8
Russell 2000	4676.2	1.9	7.7	7.7	(4.7)	9.2	2.7	7.4
Russell Midcap	7424.7	2.0	7.3	8.0	(4.5)	10.2	6.9	9.3

Equity Sectors

Sector	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
Materials	517.1	2.2	10.0	6.7	12.7	16.2	9.5	10.2
Industrials	900.3	2.2	10.3	9.2	24.4	17.9	10.3	11.5
Comm Services	213.9	(0.9)	1.6	34.9	14.3	7.4	9.1	6.4
Utilities	328.8	(2.0)	0.4	(6.8)	(3.8)	8.1	8.0	9.3
Consumer Discretionary	1312.6	(0.0)	10.6	31.3	21.1	9.2	9.7	12.8
Consumer Staples	771.6	(0.9)	2.3	0.3	5.7	11.9	10.9	9.5
Health Care	1532.1	(0.8)	3.2	(2.5)	3.9	12.0	11.6	12.7
Information Technology	3030.8	(0.0)	4.7	40.2	35.9	20.0	21.4	21.6
Energy	619.7	3.3	6.0	(6.1)	15.6	36.2	6.5	4.3
Financials	556.1	1.6	5.7	(1.4)	7.6	15.9	7.0	10.0
Real Estate	234.5	3.4	4.7	2.9	(4.9)	6.5	6.3	7.6

Fixed Income

Index	Yield	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
3-Months Treasury Bill (%)	5.3	0.1	0.4	2.3	3.7	1.3	1.5	1.0
2-Year Treasury (%)	4.9	(0.2)	(0.6)	0.6	(0.4)	(1.4)	0.7	0.6
10-Year Treasury (%)	3.8	(0.3)	(1.4)	1.5	(3.1)	(7.1)	0.3	0.9
Bloomberg US Corporate HY	8.7	0.2	1.3	5.0	8.3	3.0	3.3	4.4
Bloomberg US Aggregate	4.8	(0.2)	(0.7)	1.8	(0.8)	(4.1)	0.7	1.5
Bloomberg Municipals	--	0.1	1.0	2.7	3.5	(0.6)	1.8	2.7
Bloomberg IG Credit	5.5	(0.1)	(0.1)	2.7	1.3	(3.6)	1.7	2.6
Bloomberg EM Bonds	7.5	(0.0)	1.3	3.1	5.3	(2.8)	1.0	2.7

Commodities

Index	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
WTI Crude ($/bl)	69.9	0.5	2.6	(13.0)	(36.4)	20.7	(1.2)	(3.2)
Gold ($/Troy Oz)	1917.9	(0.3)	(3.2)	5.0	5.5	2.5	8.9	4.6
Bloomberg Commodity Index	100.3	(2.9)	2.3	(11.1)	(18.0)	16.0	2.8	(2.1)

Currencies

Currency	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
US Dollar Index	103.3	0.9	(0.9)	(0.2)	(1.7)	1.9	1.8	2.2
Euro	1.1	(0.6)	2.1	2.0	3.9	(1.1)	(1.4)	(1.8)
British Pound	1.3	(1.0)	1.8	4.9	4.1	0.9	(0.9)	(1.8)
Japanese Yen	144.6	(1.3)	(3.4)	(8.8)	(5.4)	(9.4)	(5.2)	(3.7)

International Equities

Index	Price	Weekly	MTD	YTD	1 Year	3 Year	5 Year	10 Year
MSCI AC World	675.9	0.0	4.8	13.1	14.7	11.5	8.4	9.2
MSCI EAFE	2113.6	(0.6)	3.7	11.2	16.7	9.3	4.7	5.8
MSCI Europe ex UK	2359.6	0.2	3.7	14.5	21.9	10.5	6.6	7.1
MSCI Japan	3515.8	(1.1)	4.4	13.6	18.3	6.4	3.6	5.6
MSCI EM	987.1	(1.2)	3.6	4.8	0.7	2.7	1.3	3.3
MSCI Asia ex JP	629.4	(1.3)	2.5	2.9	(2.0)	1.6	1.2	4.8
MSCI LATAM	2431.8	(1.3)	11.7	18.5	28.6	16.4	5.2	1.5
Canada S&P/TSX Composite	15029.4	1.7	1.7	2.7	4.4	9.0	4.1	5.1

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

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