July 31st, 2023

VERED WEALTH MANAGEMENT (CANADA) COMPANY LIMITED

Weekly Market Guide

The trend remains your friend: The S&P 500 remains in a notable uptrend since the October 2022 lows as momentum is overshadowing the potential for further economic softening. Over the past week, the market message has improved as divergences continue to wane, breadth broadened, and earnings remain strong. While we refrain from unbridled enthusiasm (as there are plenty of concerns to consider that could upset the upbeat tone of the market and cause near-term choppiness), the market message is getting more difficult to ignore even in the face of economic softening.

Rotations During Earnings Season: 1Q'23 earnings served as a much-needed catalyst for equities as stronger-than-expected earnings helped to slow the decline of earnings revisions, which were viewed positively by market participants. However, as we approached 2Q'23 earnings, the bar has been raised following the sharp move higher for equities and elevated valuations, most notably in Tech+ sectors. While S&P 500 earnings have been strong with 77% of companies beating earnings by an average surprise of 6.7%, we have seen some rotation under the surface from areas with the strongest fundamentals and price performance into the lagging areas. There seems to be a preference towards the out-of-favor areas, such as Health Care, given low expectations and attractive valuation and away from in-favor areas, such as Communication Services. Despite experiencing the second lowest level of EPS surprises (4.4%) for companies that have reported, Health Care has seen the best 3-day returns following earnings amongst the sectors, while in-favor areas that have seen improving stronger fundamentals, such as Communication Services, are seeing the worst 3-day returns following earnings despite the highest degree of earnings surprises given stretched valuations and elevated expectations. While earnings over the coming weeks will likely continue to reveal if this rotation can persist, we believe the recent broadening in breadth is positive for equities as the market had gotten too one-dimensional.

FOMC Decision: As expected, the Fed raised the target rate by another 25 bps today, which based on the initial reaction, the market seems to have taken in stride. Prior to today's decision, the market implied expectation for the peak terminal rate (in November) was for rates to peak at 5.44%, implying today's move will likely be the last rate hike before the Fed starts to loosen monetary policy. Overall, while the eventual path of the Fed remains uncertain, we believe the market messaging still seems to suggest a belief that the Fed can engineer a "soft landing", as the tightening cycle nears the end as inflation data continues to moderate.

Overall, we maintain a positive 12+ month bias, thus would use pullbacks as opportunities to accumulate. From a technical perspective, we see the next area of technical resistance around 4600. On the downside, we see technical support around the 21-DMA at 4478 followed by the 50-DMA around 4350.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	6.9%	10.8%
S&P 500	19.0%	15.1%
S&P 500 (Equal-Weight)	9.4%	9.9%
NASDAQ Composite	35.1%	20.0%
Russell 2000	11.6%	8.2%
MSCI All-Cap World	16.0%	13.7%
MSCI Developed Markets	12.3%	15.4%
MSCI Emerging Markets	7.9%	4.6%
NYSE Alerian MLP	10.5%	17.8%
MSCI U.S. REIT	7.4%	-4.5%

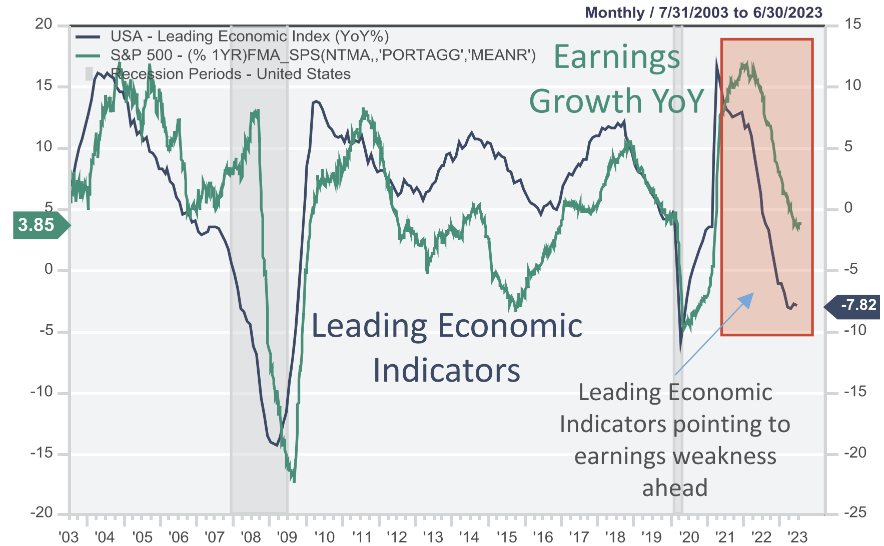
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Information Technology	45.9%	28.3%
Communication Svcs.	36.7%	8.2%
Consumer Discretionary	33.5%	10.5%
S&P 500	***19.0%***	-
Industrials	11.6%	8.5%
Materials	9.9%	2.5%
Real Estate	3.9%	2.4%
Financials	3.2%	12.7%
Consumer Staples	2.0%	6.6%
Health Care	-0.2%	13.4%
Energy	-1.9%	4.2%
Utilities	-3.0%	2.6%

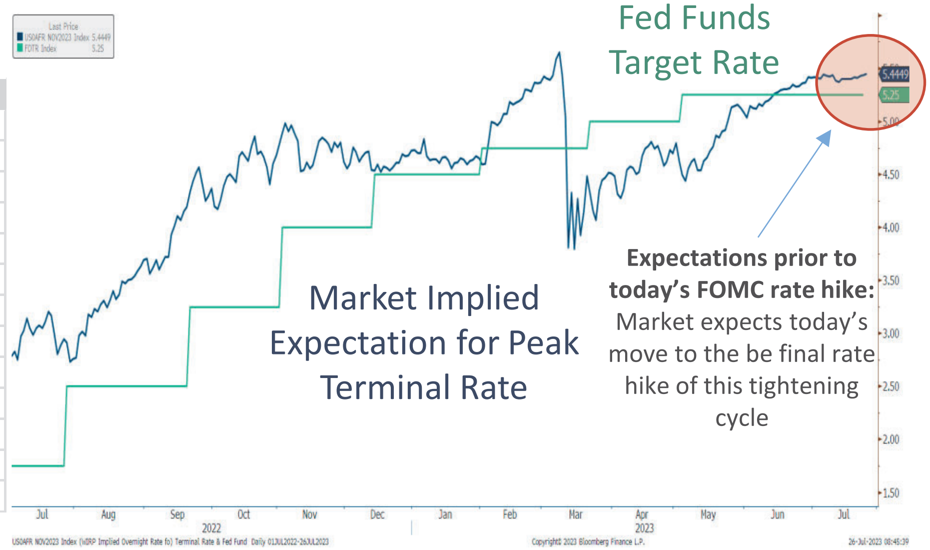
Source: FactSet

MACRO: US

Despite a relatively light macro calendar this week, the Fed, as expected, raised the target rate by another 25 bps. In the chart on the bottom right, prior to today's decision, the market implied expectation for the peak terminal rate (in November) was for rates to peak at 5.44%, implying today's move will likely be the last rate hike before the Fed starts to loosen monetary policy. Overall, we believe the market messaging still seems to suggest a belief that the Fed can engineer a "soft landing", as current expectations suggest this to be the last rate hike of the cycle and comes on the heels of inflation data that continues to moderate.

While we respect the market messaging, we refrain from unbridled enthusiasm given that traditional recessionary signals continue to point to potential weakness ahead. As seen in the top chart to the right, leading economic indicators, which were reported this week, continued to weaken in June, down 0.7% MoM. Historically, there has been a strong correlation between leading economic indicators and growth in earnings for the S&P 500. The weakness in LEI suggest that earnings may continue to move lower from current levels.





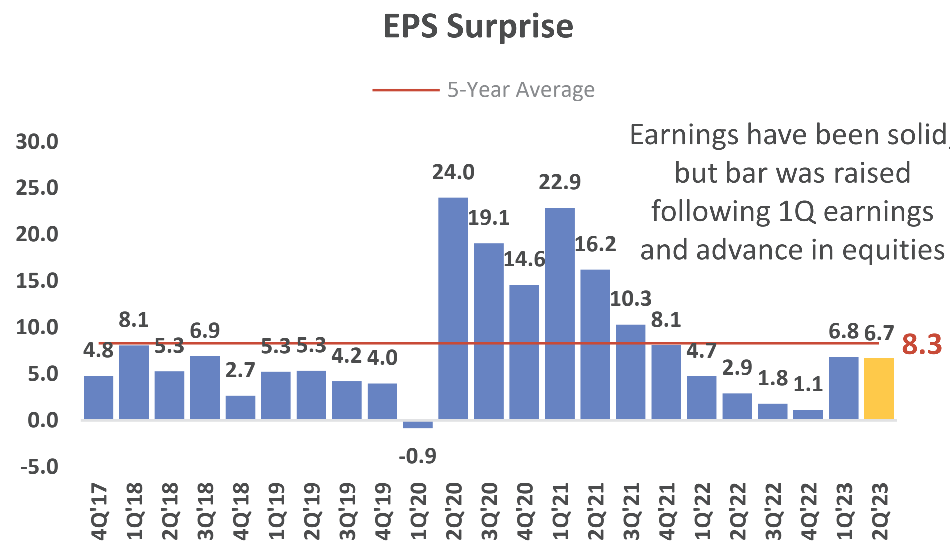
Event	Period	Actual	Consensus	Surprise	Prior
Continuing Jobless Claims SA	07/08	1,754K	1,730K	24.0K	1,721K
Initial Claims SA	07/15	228.0K	241.0K	-13.0K	237.0K
Philadelphia Fed Index SA	JUL	-13.5	-10.0	-3.5	-13.7
Existing Home Sales SAAR	JUN	4,160K	4,200K	-40.0K	4,300K
Leading Indicators SA M/M	JUN	-0.70%	-0.60%	-0.10%	-0.60%
Chicago Fed National Activity Index	JUN	-0.32	-0.13	-0.19	-0.28
PMI Composite SA (Preliminary)	JUL	52.0	52.9	-0.90	53.2
Markit PMI Manufacturing SA (Preliminary)	JUL	49.0	46.1	2.9	46.3
Markit PMI Services SA (Preliminary)	JUL	52.4	54.0	-1.6	54.4
FHFA Home Price Index	MAY	404.1	-	-	401.2
Consumer Confidence	JUL	117.0	110.5	6.5	110.1
Richmond Fed Index	JUL	-9.0	-9.0	0.0	-8.0
Building Permits SAAR (Final)	JUN	1,441K	-	-	1,440K

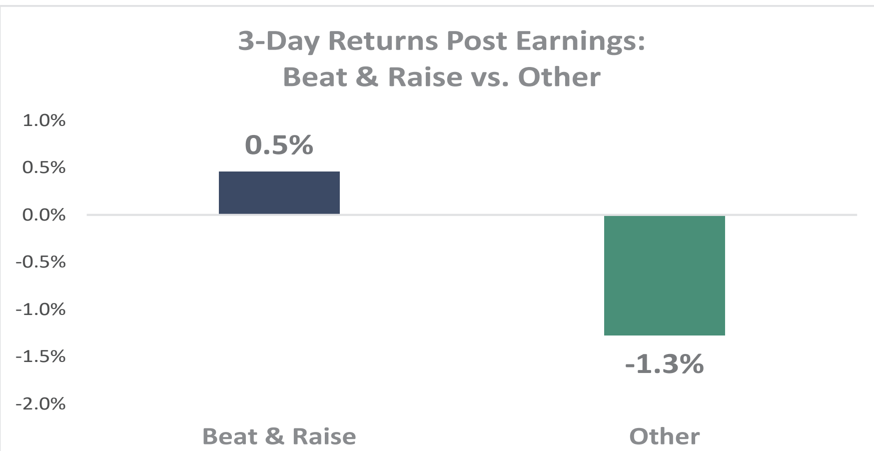
Source: FactSet, Bloomberg

EARNINGS SEASON

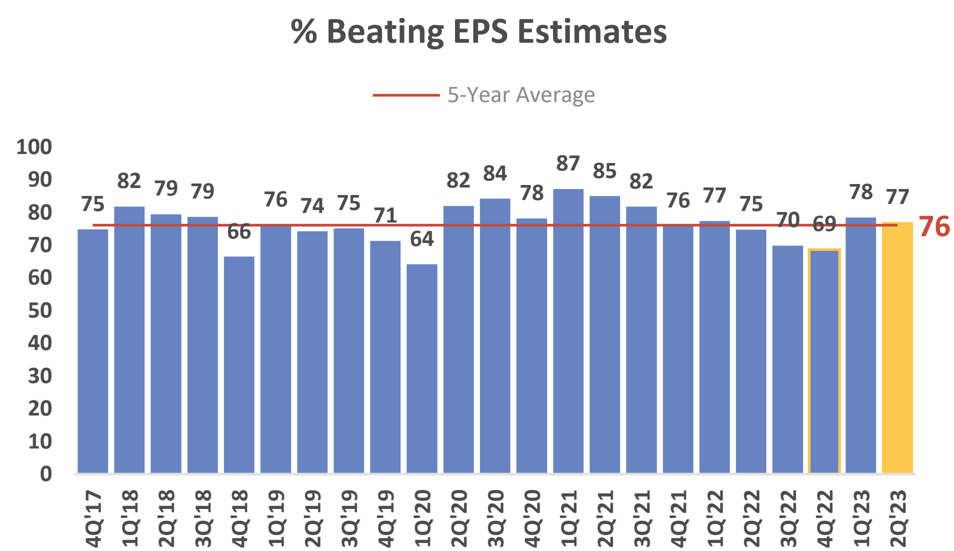
Going into earnings season, expectations were heightened given the recent strength in equities and elevated valuations. However, with around 30% of S&P 500 companies have already reported, earnings have been solid with 77% of companies beating earnings by an average surprise of 6.7% (vs. the 5-year average of 76% and 8.3%, respectively). Despite the nearly 7% surprise, earnings for 2Q'23 are still down 8.8% from the beginning of the year. As we go through the remainder of earnings season, we continue to watch earnings revisions closely. During 1Q'23 earnings season, the 6.8% EPS surprise proved to slow the downward revisions for S&P 500 earnings and served as a nice catalyst for equity markets.

While this should not be a surprise, companies that are seeing beats and raises are outperforming those that are not. Companies beating earnings and raising their outlook are seeing average performance over the 3-days post earnings of 0.5% while those that are missing earnings are being punished, and down on average by 1.3% of that period.





Source: FactSet



TECHNICAL: S&P 500

Source: FactSet

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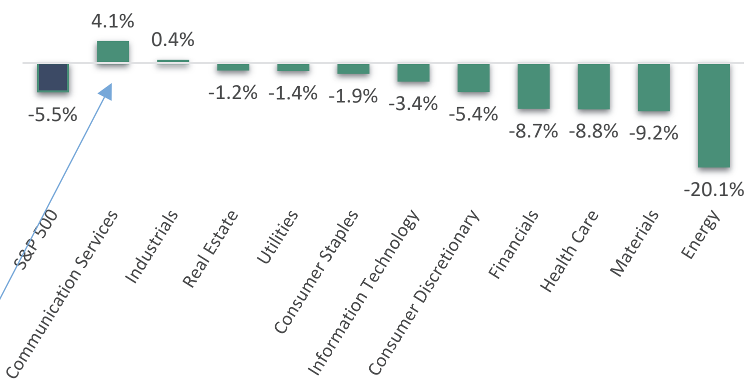
MARKET ROTATION

There seems to have been some market rotation from the fundamental winners, most notably Communication Services, into areas of the market that have lagged, such as Health Care and Financials, during the early part of earnings season. While the average price reaction in the 3-days following earnings is down 0.5% for S&P 500 companies, Health Care has seen average price improvement of 3% despite 2023 EPS being revised down nearly 9% YTD. We believe low expectations and attractive valuations are driving this rotation.

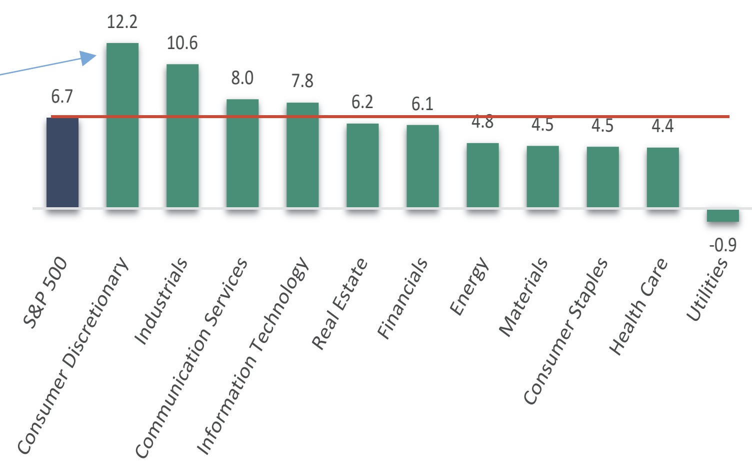
On the other hand, elevated expectations and stretched valuations are leading to some relative performance give-back in the best performing fundamental sectors, mostly notable the Communication Services sector. Earnings season for the sector has been strong with 100% of companies, that have reported, beating by an average EPS surprise of 8% (both of which are better than the average S&P 500 company which is 77% and 6.7%, respectively). We believe the recent rotation may be the result of the market getting ahead of itself in the short-term and rotating into other areas that have lagged. Overall, we believe further broadening of breadth should be viewed positively as earnings revisions are trying to stabilize, and further enhances the odds that the lows have been made and the market advance may be sustainable.

2023 EPS Revisions since 12/31/22

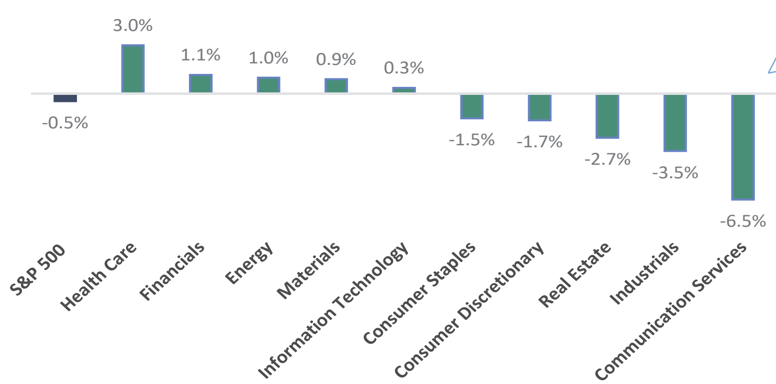


Strongest fundamental sectors (Communication Services and Industrials) has given up relative price performance vs. the lagging sectors during earnings season, suggestive of market rotation

2Q'23: % EPS Surprise



Average 3-Day Return Post Earnings by Sector



Source: FactSet

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