August 21st, 2023

VERED WEALTH MANAGEMENT (CANADA) COMPANY LIMITED

Weekly Market Guide

Equities are in the midst of a minor pullback: S&P 500 -3.8%, Nasdaq -6.1%, and Russell 2000 -5.6%. While "minor" thus far, this is the biggest pullback for broad equity markets since the March banking crisis. S&P 500 price action has started to act a bit heavier, and the index just closed yesterday below its 50-day moving average for the first time since March.

Last week contained a good example of sentiment moderating, as a good CPI print and early morning rally was unable to hold on to the gains (closing near lows for the day). We have also seen good Q2 earnings results from many of the market leaders generally result in "buy on the rumor, sell on the news."

Losing some momentum in the market's up-move from overbought levels and elevated valuations (for the index, not everything) leaves equities more susceptible to a correction. Now, markets seldom move in straight lines- **corrections are usually a process**. And after the degree of strength over recent months, a "buy the pullback" mentality is likely to set in soon. Evaluating that potential bounce will provide clues on the path ahead. If the bounce is meager and equities subsequently break lower, the odds will increase for further downside.

Technically, we see meaningful S&P 500 support in the 4200-4328 area. This would reflect a 6-8% drawdown from the peak, which is very normal historically. Recent economic developments (i.e. China debt concerns, rating downgrades, higher US/UK/EU bond yields, still weak economic surveys) are shots across the bow- nothing overly concerning, but contributing to an overdue correction. Seasonality also likely acts as a headwind (August-October is the softest period of the year historically).

Accordingly, we recommend investors move up-stream toward quality in their portfolios if putting new capital to work. However, outside of a significantly negative catalyst developing, we view this pullback as market normalization within an otherwise solid uptrend.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	5.4%	3.0%
S&P 500	15.6%	3.3%
S&P 500 (Equal-Weight)	5.5%	-1.8%
NASDAQ Composite	30.2%	3.8%
Russell 2000	7.6%	-6.2%
MSCI All-Cap World	12.1%	2.9%
MSCI Developed Markets	8.3%	7.0%
MSCI Emerging Markets	2.7%	-3.3%
NYSE Alerian MLP	7.5%	9.2%
MSCI U.S. REIT	1.5%	-16.0%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Communication Svcs.	41.1%	8.8%
Information Technology	36.8%	27.3%
Consumer Discretionary	31.8%	10.6%
S&P 500	***15.6%***	-
Industrials	9.3%	8.5%
Materials	4.8%	2.5%
Financials	-0.2%	12.6%
Health Care	-0.4%	13.7%
Energy	-0.7%	4.4%
Consumer Staples	-0.8%	6.6%
Real Estate	-0.9%	2.3%
Utilities	-11.0%	2.5%

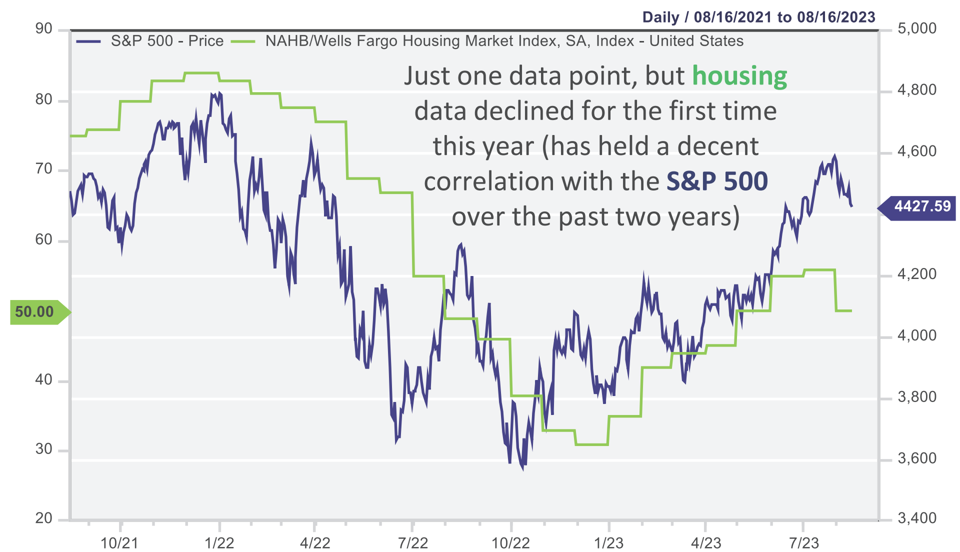
Source: FactSet

MACRO: US

A very busy week of economic data- overall, consistent with the US economy continuing to hold up well. July Retail Sales rose 0.7% (well ahead of the 0.4% estimate) and Industrial Production rose 1.0% (well ahead of the 0.3% estimate). Additionally, Core CPI rose just 0.2% for the second consecutive month (a good trajectory to bring the y/y reading down to the Fed's target over the next year), although core PPI rose 0.3% (above the 0.2% estimate). The net of it all saw expectations for Fed cuts next year get pushed out slightly, and the 2-year Treasury yield rise near cycle highs at ~5%. The incoming data likely keeps the Fed on pause for now (at restrictive levels). Our concern economically is the degree of caution signaled by economic survey indicators and increasingly tight credit conditions, leading to our view of a mild recession occurring (and not believing that equities have fully priced that in).

Event	Period	Actual	Consensus	Surprise	Prior
CPI ex-Food & Energy SA M/M	JUL	0.20%	0.20%	-0.0%	0.20%
CPI ex-Food & Energy NSA Y/Y	JUL	4.7%	4.8%	-0.10%	4.8%
Continuing Jobless Claims SA	07/29	1,684K	1,700K	-16.0K	1,692K
CPI SA M/M	JUL	0.20%	0.20%	-0.0%	0.20%
CPI NSA Y/Y	JUL	3.2%	3.3%	-0.10%	3.0%
Initial Claims SA	08/05	248.0K	230.0K	18.0K	227.0K
Treasury Budget NSA	JUL	-$220.8B	-$98.0B	-$122.8B	-$227.8B
PPI ex-Food & Energy SA M/M	JUL	0.30%	0.20%	0.10%	-0.10%
PPI ex-Food & Energy NSA Y/Y	JUL	2.4%	2.4%	-0.01%	2.4%
PPI SA M/M	JUL	0.30%	0.20%	0.10%	0.0%
PPI NSA Y/Y	JUL	0.80%	0.70%	0.10%	0.16%
Export Price Index NSA M/M	JUL	0.70%	0.50%	0.20%	-0.70%
Import Price Index NSA M/M	JUL	0.40%	0.20%	0.20%	-0.10%
Retail sales ControlGroup SA M/M	JUL	0.99%	0.50%	0.49%	0.53%
Retail Sales ex-Auto SA M/M	JUL	1.0%	0.40%	0.60%	0.22%
Retail Sales SA M/M	JUL	0.70%	0.40%	0.30%	0.30%
NAHB Housing Market Index SA	AUG	50.0	56.0	-6.0	56.0
Building Permits SAAR (Preliminary)	JUL	1,442K	1,454K	-12.0K	1,441K
Housing Starts M/M	JUL	3.9%	0.40%	3.5%	-11.7%
Housing Starts SAAR	JUL	1,452K	1,440K	12.0K	1,398K
Capacity Utilization NSA	JUL	79.3%	79.0%	0.30%	78.6%
Industrial Production SA M/M	JUL	1.0%	0.30%	0.70%	-0.80%

Source: FactSet



VALUATION- MARKET PRICING IN A BETTER ECONOMY

Where the consensus lies and what's priced in are important factors in evaluating equity markets. Our sense is that investors are pricing in a soft-landing economic scenario. As you can see, leading economic indicators have correlated well with S&P 500 y/y returns coming out of prior bear markets. This cycle, equities were early to price in weakness, likely contributed in part by how telegraphed Fed policy has become (we hear from FOMC members all the time). And for that reason, we also believe that equities could be early to price in the eventual recovery. However, the degree of market strength exhibited this year gives benefit of the doubt to a lot of economic variables that could sour the mood over the coming months. The S&P 500 trades at a 19x forward P/E multiple, pricing in a rebound of economic leading indicators that may take time to play out. To be sure, we are positive on equities over the next 12+ months but do not believe the path will be as easy as the last few months.

S&P 500 (SP50-USA) : 07/30/1993 to 07/31/2023 (Monthly)

S&P 500 (SP50-USA) : 08/16/2013 to 08/16/2023 (Weekly)

Source: FactSet

TECHNICAL: S&P 500

Source: FactSet

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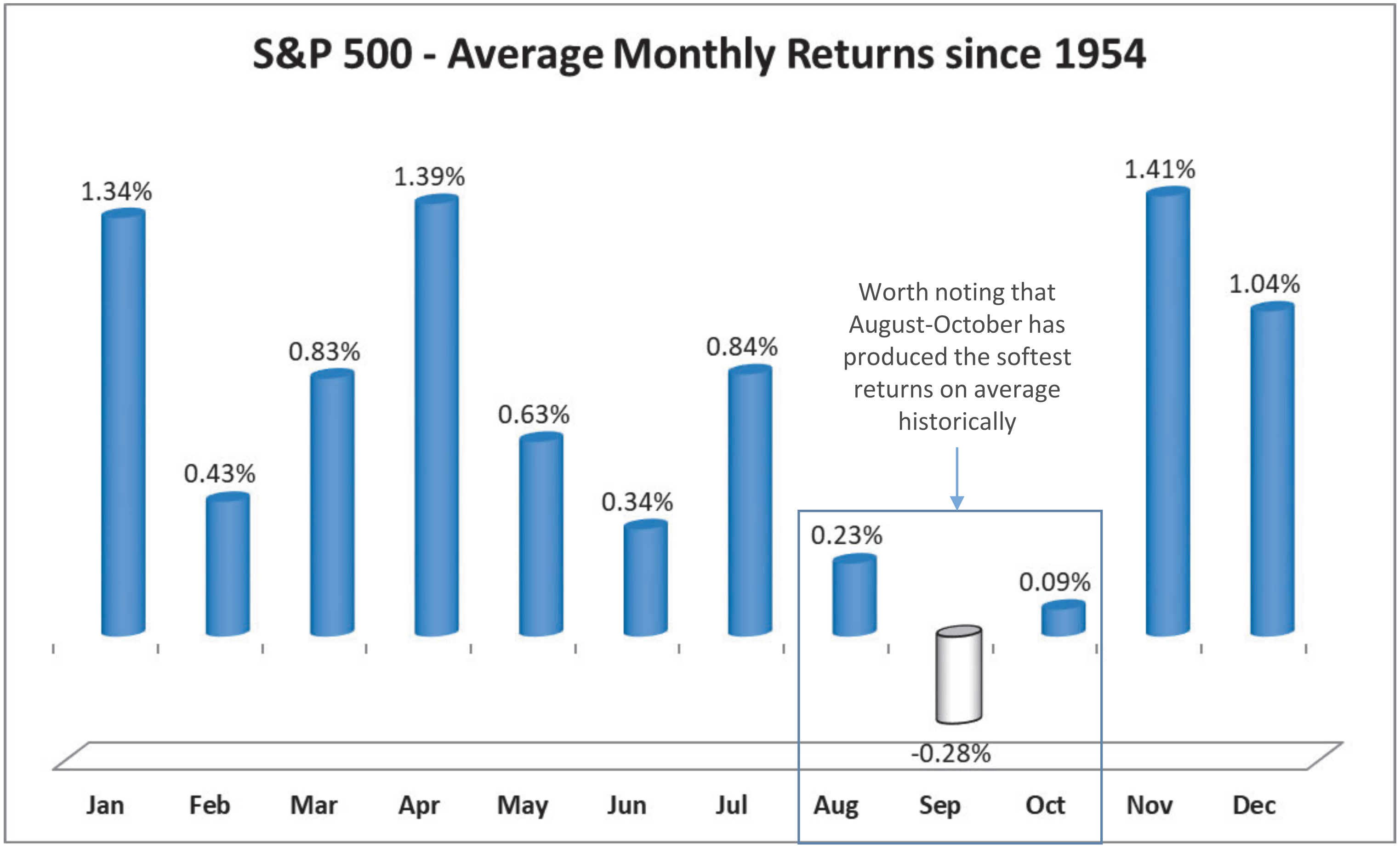
SEASONALITY MAY ACT AS A HEADWIND

We do not recommend investing based on the calendar alone, but it is worth noting that the August through October timeframe has been the seasonally softest period of the year historically (since 1954).



Source: FactSet

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