September 4th, 2023

VERED WEALTH
MANAGEMENT (CANADA)
COMPANY LIMITED

Weekly Market Guide

The market has gone through its first drawdown and is now seeing a relief rally this week. Fed Chair Powell gave a little for the bulls and bears on Friday, stating the Fed was "prepared to raise rates further if appropriate" but also that it would "proceed carefully"- making the incoming economic data very influential on Fed expectations and market movements.

Tuesday's JOLTS report reinvigorated the soft-landing crowd, as job openings dropped by a large 338k. The quits rate also declined, indicating lower employment costs ahead. **The soft landing narrative hinges on the Fed conquering inflation without job destruction, and (for now) inflation and employment are normalizing as they should. There still remain questions down the road on whether job normalization will eventually lead to job loss, but the market does not seem overly concerned with that at the moment.** The lag effect of rapid Fed tightening and yield curve inversion still lead us to believe that a mild recession will occur at some point, but the lead time can be long. There was so much stimulus in the economy before Fed tightening that it could take a while. The timing of economic weakness (and eventual degree) remain key to market trends ahead. **Investor focus will quickly shift to Friday's jobs report, along with the upcoming August ISM surveys.**

The market response to oversold conditions has been strong with the S&P 500 slicing right through 50-day moving average resistance on heavy advancing volume. Participation was not great yesterday, as performance was very Tech-heavy. In fact, Tech relative performance is approaching its highs once again while equal-weighted S&P 500 relative performance is back on its lows. We would like to see market participation broaden out for the current uptrend to develop into a healthy bull market.

There is plenty of bounce left in this market and room for the rally to extend further. As the market reaches overbought conditions, we will need to assess price action at resistance levels (i.e. ~4600 S&P high) along with the incoming data. Pullback periods can come in price or time, and we continue to believe that volatility is likely as we move through the Fall (seasonally soft August-October historically). That said, odds favor the overall uptrend prevailing within the context of pullbacks-and we would use them opportunistically.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	5.1%	8.6%
S&P 500	17.1%	11.6%
S&P 500 (Equal-Weight)	5.9%	4.7%
NASDAQ Composite	33.2%	16.0%
Russell 2000	7.6%	0.7%
MSCI All-Cap World	13.1%	10.1%
MSCI Developed Markets	8.0%	13.5%
MSCI Emerging Markets	3.3%	-0.4%
NYSE Alerian MLP	10.0%	6.2%
MSCI U.S. REIT	3.0%	-8.3%

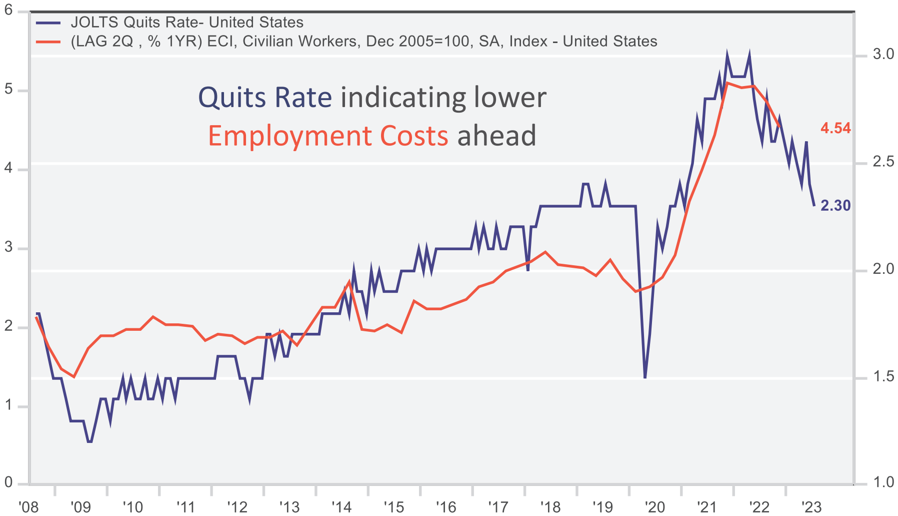
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Communication Svcs.	43.5%	8.8%
Information Technology	42.0%	27.9%
Consumer Discretionary	32.6%	10.5%
S&P 500	***17.1%***	-
Industrials	9.9%	8.5%
Materials	6.3%	2.5%
Financials	0.4%	12.5%
Energy	0.1%	4.4%
Real Estate	-0.1%	2.3%
Health Care	-1.1%	13.4%
Consumer Staples	-1.6%	6.6%
Utilities	-10.1%	2.5%

Source: FactSet

MACRO: US

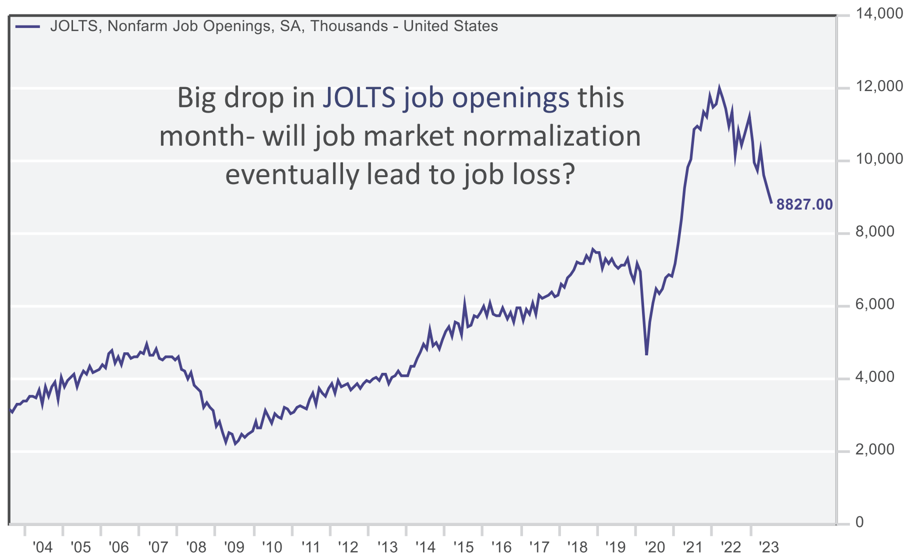
The Fed's reliance on incoming economic data to determine monetary policy changes leaves the market very levered to the data as well. Tuesday's JOLTS reading saw a 338k decrease in job openings to 8.8M, along with a continued decline in the quits rate. The labor market remains undersupplied, but its normalization is a positive for the Fed as it attempts to navigate a soft landing (conquering inflation without a decline in employment).

While the recent data is positive, the question remains whether job market normalization will eventually lead to job loss down the road. The lag effect of rapid Fed tightening and yield curve inversion still lead us to believe that a mild recession will occur at some point, but the lead time can be long. Investors will continue to assess the incoming data, i.e. jobless claims tomorrow, August jobs report Friday, and ISM surveys.



Event	Period	Actual	Consensus	Prior
Continuing Jobless Claims SA	08/12	1,702K	1,690K	1,711K
Durable Orders ex-Transportation SA M/M (Preliminary)	JUL	0.50%	0.30%	0.20%
Durable Orders SA M/M (Preliminary)	JUL	-5.2%	-4.0%	4.4%
Initial Claims SA	08/19	230.0K	240.0K	240.0K
Dallas Fed Index	AUG	-17.2	-15.0	-20.0
FHFA Home Price Index	JUN	405.8	-	404.4
S&P/Case-Shiller comp.20 HPI M/M	JUN	0.90%	1.0%	1.0%
S&P/Case-Shiller comp.20 HPI Y/Y	JUN	-1.2%	-1.3%	-1.7%
Consumer Confidence	AUG	106.1	116.0	114.0
JOLTS Job Openings	JUL	8,827K	9,478K	9,165K
ADP Employment Survey SA	AUG	177.0K	200.0K	312.0K
GDP Chain Price SAAR Q/Q (Second Preliminary)	Q2	2.0%	2.2%	2.2%
GDP Chain Price SA Y/Y (Second Preliminary)	Q2	3.6%	3.8%	3.6%
GDP SAAR Q/Q (Second Preliminary)	Q2	2.1%	2.4%	2.4%
GDP SA Y/Y (Second Preliminary)	Q2	2.5%	2.6%	2.6%
Pending Home Sales Index SAAR	JUL	77.6	76.8	76.9
Pending Home Sales M/M	JUL	0.90%	-0.75%	0.39%

Source: FactSet

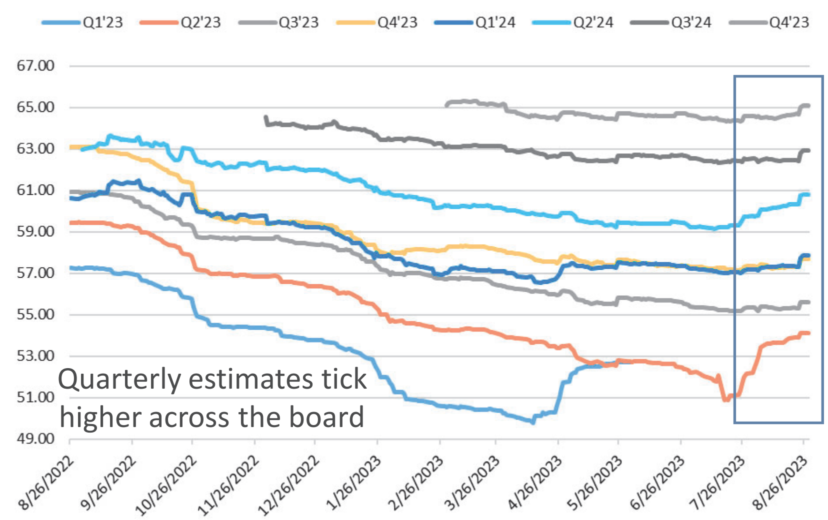


EARNINGS ESTIMATES TICKING HIGHER

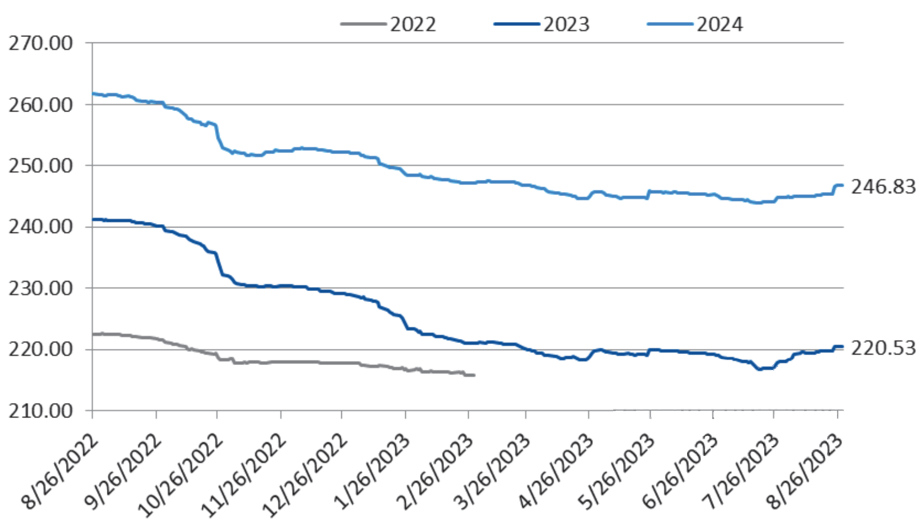
Quarterly earnings estimates have ticked higher across the board of late- supporting overall equity market trends. Additionally, 2024 estimate revisions have favored this year's best-performing areas, i.e. Technology, Communication Services, and Consumer Discretionary, along with Industrials. Better relative earnings has been a tailwind to performance in these areas, and by-and-large those trends remain in place.

We still have our concerns on earnings estimates being too high, given the market pricing in a better economy (and our expectation of a mild recession). This increases the odds of potential economic volatility correlating with market volatility. But for now, the economy is holding up and earnings trends are supportive of equity markets.

Quarterly Earnings Estimates



Earnings Estimate Revisions - over Past Year



2024 EPS Revisions since 6/30

Source: FactSet

TECHNICAL: S&P 500

Not quite overbought yet- room to extend the rally further

Source: FactSet

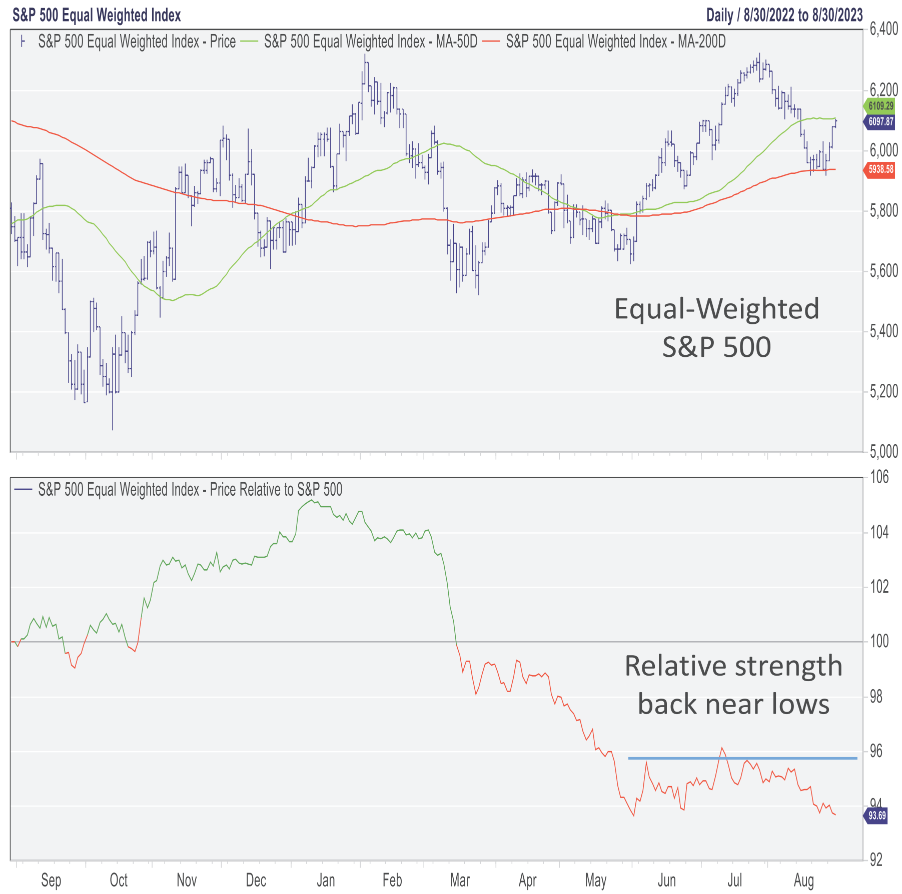
The S&P 500 has gone through its first drawdown and is now seeing a relief rally. Additionally, the response to oversold conditions has been strong with the S&P 500 slicing straight through 50-day moving average resistance on heavy advancing volume yesterday.

There is plenty of bounce left in this market and room for the rally to extend further. As the market reaches overbought conditions, we will need to assess price action at resistance levels (i.e. ~4600 S&P high) along with the incoming data. If the S&P 500 fails at resistance, rolls over, and breaks to new lows, a downtrend will start to develop. Technical support lies at ~4335 (recent lows) and ~4200 (May breakout and near 200 DMA).

Pullback periods can come in price or time, and we continue to believe that volatility is likely as we move through the Fall (seasonally soft August-October historically). That said, odds favor the overall uptrend prevailing within the context of pullbacks- and we would use them opportunistically.

NARROW MARKET PARTICIPATION

Participation was not great in yesterday's upside, as performance was very Tech-heavy. In fact, relative performance of the big 10 Tech stocks (that have dominated performance this year) is approaching its highs once again, while equal-weighted S&P 500 relative performance is back on its lows. Technology earnings trends remain supportive of the group's outperformance, but we still would like to see market participation broaden out for the current uptrend to develop into a healthy bull market.



Source: FactSet

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