September 11th, 2023

VERED WEALTH
MANAGEMENT (CANADA)
COMPANY LIMITED

Weekly Market Guide

Equities are in a consolidation phase, following their run-up on soft-landing optimism and AI enthusiasm through July. After a good oversold bounce from support, we now need to assess price action and the incoming economic data from overbought conditions and resistance- **our bias is that the ongoing consolidation likely has more to go.**

Underlying performance continues to be bifurcated, as Tech-oriented leadership (and Energy) has the momentum, while relative performance for most everything else weakens. The narrow technical backdrop is not ideal, as we continue to believe that breadth will need to expand in order for this year's gains to develop into a healthy bull market. Also, despite the past month's volatility, the low-beta Utilities and Consumer Staples have been the worst performers (as the market seems uninterested in "defense" at the moment).

Big picture, the tug-of-war continues between market momentum (and soft-landing narrative) vs. weak leading economic indicators. The lagged effect of rapid Fed tightening puts the highest odds on economic contraction at some point. But **timing of economic weakness remains the question**, and it may take a while given enormous stimulus prior to tightening (and ongoing fiscal stimulus). Today's ISM survey showed the services side of the economy continues to hold up well.

A key influence is the undersupplied labor market, which is supporting jobs and consumer spending. Last week's jobs data showed a labor market that continues to normalize- with jobs growth, labor force expansion, and lower job openings accompanied by a moderation in wage growth. This fuels the soft-landing narrative, as the Fed aims to conquer lower inflation without jobs destruction. Job loss and economic contraction may eventually occur down the road (and likely will), but the undersupplied labor market may have to fully normalize first (which could take months). If the Fed is able to drive down inflation by the time economic deterioration occurs, a potential Fed pivot may support equities despite a weaker economy.

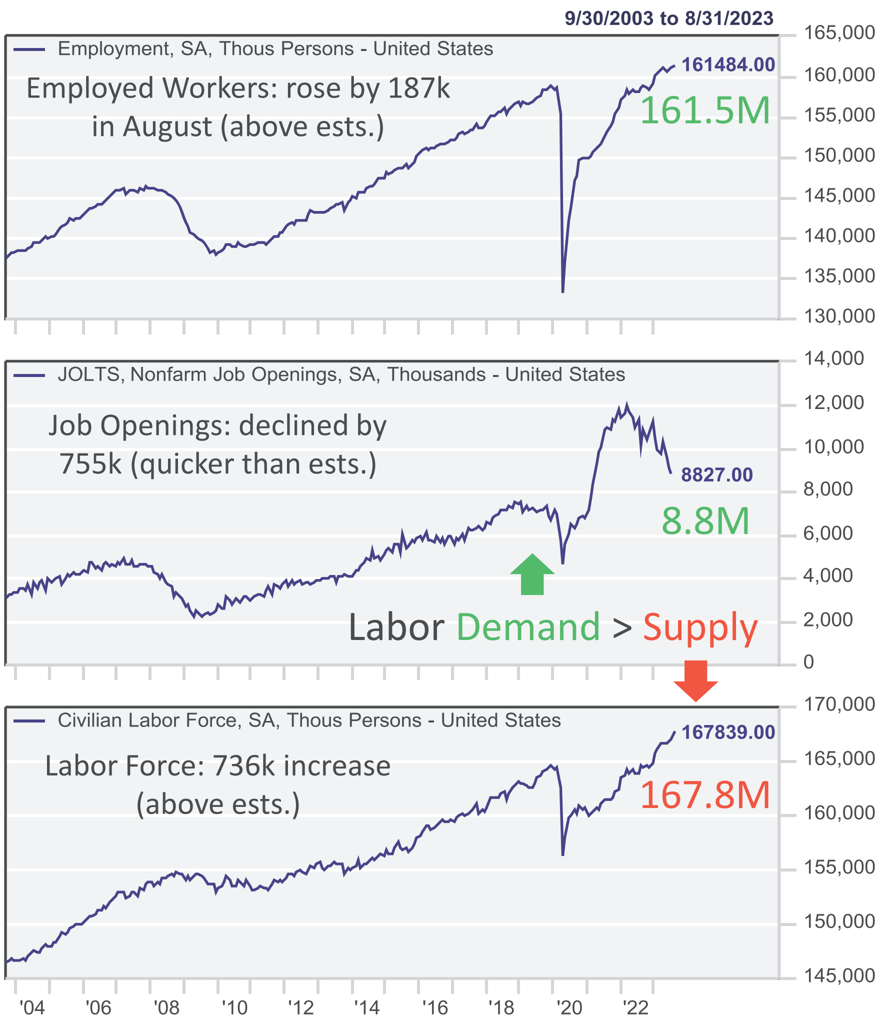
Overall, we maintain a positive 12M outlook on equities. Expect volatility (as economic volatility transpires) over the coming months and normal pullbacks to develop, but use them opportunistically. Incoming economic data- i.e. August CPI, PPI, retail sales, and industrial production- will be important influences over the next week.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	4.5%	10.6%
S&P 500	17.1%	14.6%
S&P 500 (Equal-Weight)	5.0%	6.3%
NASDAQ Composite	34.0%	20.5%
Russell 2000	6.8%	3.9%
MSCI All-Cap World	13.0%	12.7%
MSCI Developed Markets	7.4%	14.4%
MSCI Emerging Markets	3.1%	1.4%
NYSE Alerian MLP	11.4%	11.0%
MSCI U.S. REIT	1.4%	-6.9%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Information Technology	44.6%	28.5%
Communication Svcs.	43.4%	8.8%
Consumer Discretionary	32.9%	10.6%
S&P 500	***17.1%***	-
Industrials	8.5%	8.3%
Materials	5.5%	2.4%
Energy	3.3%	4.5%
Financials	0.0%	12.5%
Real Estate	-1.6%	2.3%
Health Care	-3.0%	13.1%
Consumer Staples	-3.6%	6.5%
Utilities	-13.2%	2.4%

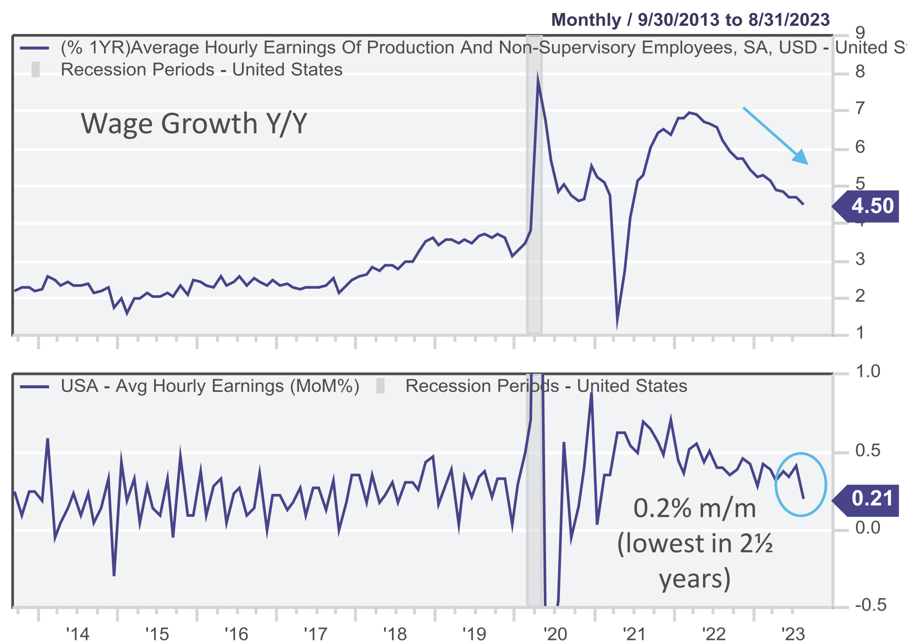
Source: FactSet

LABOR MARKET CONTINUES TO NORMALIZE



Source: FactSet

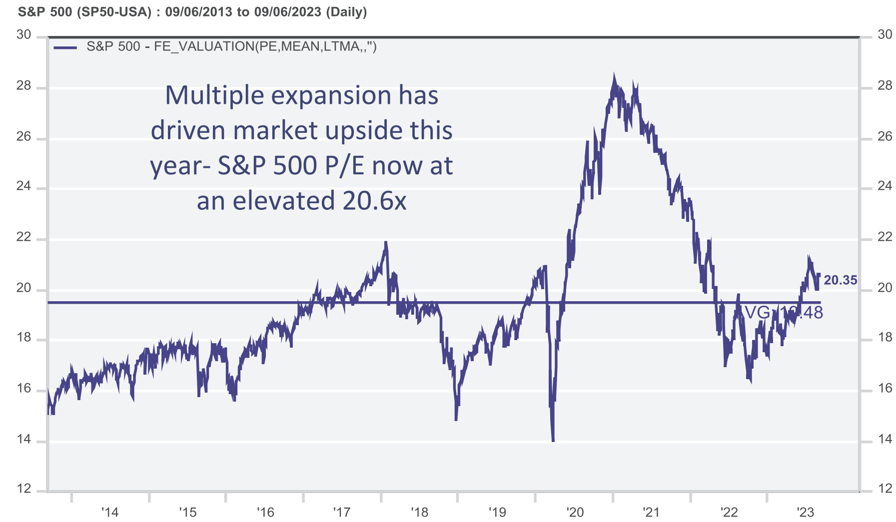
The lagged effect of rapid Fed tightening puts the highest odds on economic contraction at some point, but the timing of that economic weakness remains the question. **A key influence is the undersupplied labor market, which is supporting jobs and consumer spending.** Last week's jobs data showed a labor market that continues to normalize- with jobs growth (+187k), labor force expansion (+736k), and lower job openings (-736k) accompanied by a moderation in wage growth (0.2% m/m was lowest in 2½ years). This fuels the soft-landing narrative, as the Fed aims to conquer lower inflation without jobs destruction. **Job loss and economic contraction may eventually occur down the road (and likely will), but the undersupplied labor market may have to fully normalize first (which could take months).** If the Fed is able to drive down inflation by the time economic deterioration occurs, a potential Fed pivot may support equities despite a weaker economy.

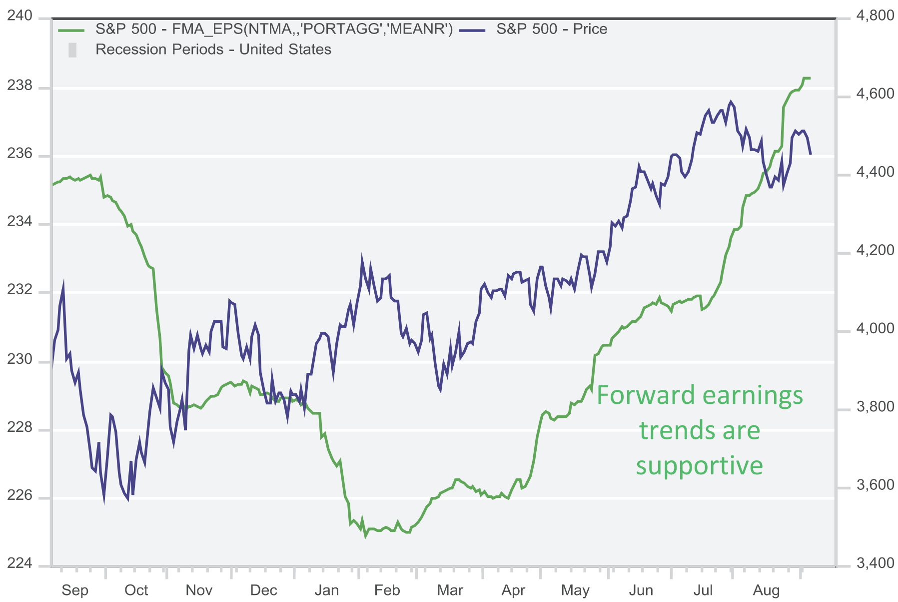


FUNDAMENTALS

Next 12-month S&P 500 earnings estimates continue to trend upward (a function of embedded growth and positive revisions). This is supportive of equity markets, and will be important to monitor for ongoing trends. If the economy and earnings roll over, it will become more of a headwind with valuation now at an elevated level for the S&P 500.

However, not all areas have high P/Es. The tech-oriented areas have dominated performance this year due to better earnings trends (stronger growth and estimate revisions). Tech's P/E is high, but also contains the best earnings momentum (which the market is focused on for now). The rest of the market is not as growthy, but also trading at lower P/E multiples. If Tech loses fundamental and/or price momentum, it will be important for these other areas to offset its weakness.





Source: FactSet

S&P 500 Sector	Est. Chg Since 6/30 2023	2024	2023 EPS Growth	2024 EPS Growth	P/E 2024
S&P 500	0.8%	0.9%	**2.1%**	**12.0%**	**18.30**
Consumer Discretionary	8.5%	3.9%	41.6%	14.7%	24.52
Communication Services	4.1%	3.6%	26.1%	18.4%	16.08
Information Technology	2.7%	3.5%	3.2%	16.9%	24.92
Industrials	0.7%	0.1%	15.2%	13.1%	17.89
Real Estate	0.6%	-0.3%	0.7%	4.6%	15.87
Utilities	-0.3%	-0.4%	6.3%	8.1%	15.50
Consumer Staples	0.2%	-1.0%	2.2%	7.6%	18.94
Financials	0.9%	-0.4%	7.8%	8.7%	13.00
Energy	-2.1%	-0.2%	-28.5%	2.8%	11.93
Health Care	-5.1%	-1.6%	-14.5%	13.1%	17.01
Materials	-3.9%	-4.3%	-20.8%	5.9%	17.80

TECHNICAL: S&P 500

Source: FactSet

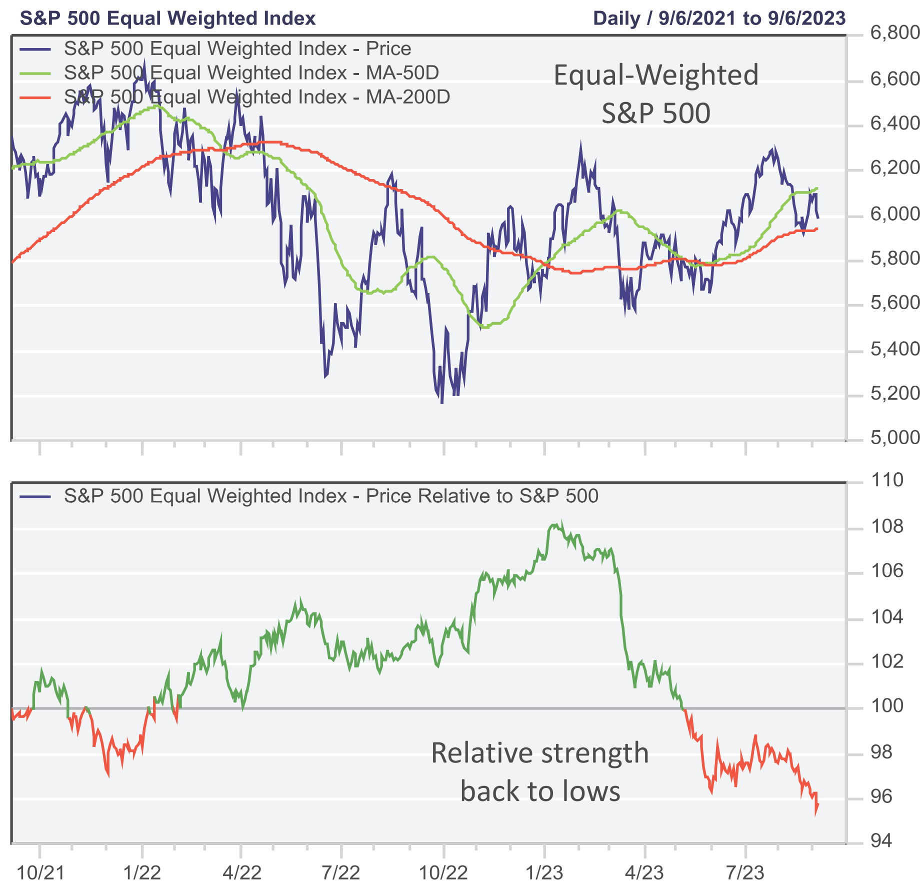
Equities are in a consolidation phase, following their run-up on soft-landing optimism and AI enthusiasm through July. After a good oversold bounce from support, we now need to assess price action and the incoming economic data from overbought conditions and resistance- our bias is that the ongoing consolidation likely has more to go.

At the moment, the S&P 500 looks like it may put in a lower top (~4600 recent highs). If this continues and the index also breaks below recent lows, odds will increase for further downside. 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.

PARTICIPATION REMAINS NARROW

Market participation remains very narrow. Despite the recent bounce and sharp gains for the index this year, the percentage of stocks above their 200 DMA is just 55%- basically unchanged from when the year began. Relative strength for the equal-weighted S&P 500 index also pushed to new lows last week. This shows how one-sided market performance has been this year (dominated by Tech) and that maintains the momentum. The narrow technical backdrop is not ideal, as we continue to believe that breadth will need to expand in order for this year's gains to develop into a healthy bull market.



Source: FactSet

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