September 18th, 2023

VERED WEALTH MANAGEMENT (CANADA) COMPANY LIMITED

## Weekly Market Guide

**The market remains in consolidation mode since August began, as a little more doubt has creeped into the minds of investors regarding the economy.** Economic uncertainty is correlating with a data-dependent Fed, leaving investors also very sensitive to the economic data, as they assess the odds of a soft-landing or recession (and if recession, its timing).

**Today's August CPI report gave a little for the bulls and bears (keeping status quo unchanged), and is unlikely to alter the Fed's thinking ahead of its rate decision next week (9/20).** Core CPI rose by 0.28% m/m, which is on the upper-end of a favorable trajectory (<0.3% m/m consistency is needed to bring the 4.3% y/y core CPI reading down to the Fed's ~2.5% target). However, combined with the last two monthly readings of 0.16%, the annualized 3-month rate of change is at 2.4%. In conjunction with a jobs market that is normalizing and showing a moderation in wage pressures, the Fed has probably seen enough to stay on hold for now (and wait to see how the data develops further). Economic data over the coming weeks will be influential on Fed expectations for the 11/1 and 12/13 FOMC meetings- where the market is currently putting roughly 50/50 odds of one more hike this year (before eventual cuts in the second half of 2024). August PPI, Retail Sales, and Industrial Production, along with weekly initial jobless claims, are also set to come out this week.

**The incoming data (and market reaction) will continue to impact the tug-of-war for investors between the market momentum/soft landing narrative and weak leading economic indicators.** Ultimately, our view is that a mild recession will occur. But it may take a while given enormous Covid stimulus prior to Fed tightening (and ongoing fiscal stimulus), along with the still undersupplied labor market supporting employment and consumer spending. If inflation is able to moderate by the time economic and labor weakness eventually occurs, the Fed may be able to pivot toward easing. As a reminder, the Fed has a dual mandate to support low inflation and maximum employment. So if inflation has become more comfortable, the Fed may be able to shift its focus toward supporting the economic (and employment) backdrop with rate cuts. And a market that has been enamored with Fed policy for over a decade is likely to trade higher despite weaker economic growth and corporate earnings (as it discounts the eventual recovery).

**Thus, we maintain a positive 12-month outlook on equities. Expect volatility and normal pullbacks (as economic volatility transpires), but use them opportunistically. In the short term, we have a bias that the ongoing consolidation phase will continue- which we view as healthy digestion following the June-July run-up.** Monitor technical resistance for the S&P 500 at ~4600 and technical support at ~4335. We also see good support at ~4200 (200-day moving average and June breakout level), which would be a very normal 9% pullback from the recent highs.

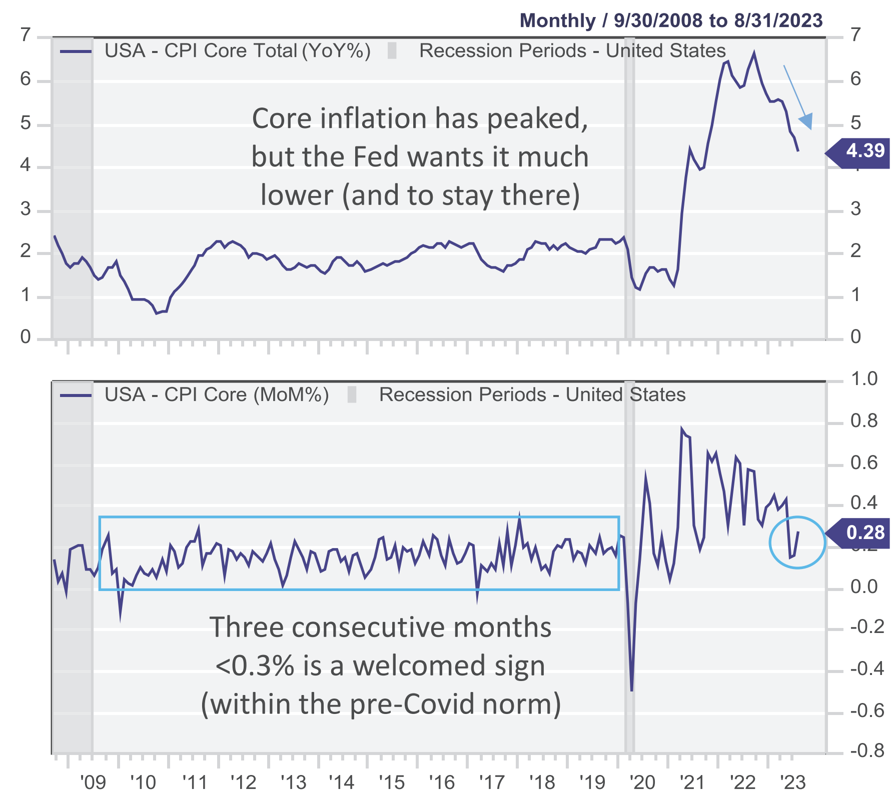
| Equity Market Indices | Price Return Year to Date | Price Return 12 Months |
|---|---|---|
| Dow Jones Industrial Avg | 4.5% | 7.0% |
| S&P 500 | 16.2% | 8.6% |
| S&P 500 (Equal-Weight) | 4.2% | 0.4% |
| NASDAQ Composite | 31.6% | 12.3% |
| Russell 2000 | 5.3% | -2.7% |
| MSCI All-Cap World | 12.3% | 7.7% |
| MSCI Developed Markets | 7.2% | 11.0% |
| MSCI Emerging Markets | 2.0% | -0.3% |
| NYSE Alerian MLP | 11.0% | 8.1% |
| MSCI U.S. REIT | 1.6% | -11.1% |

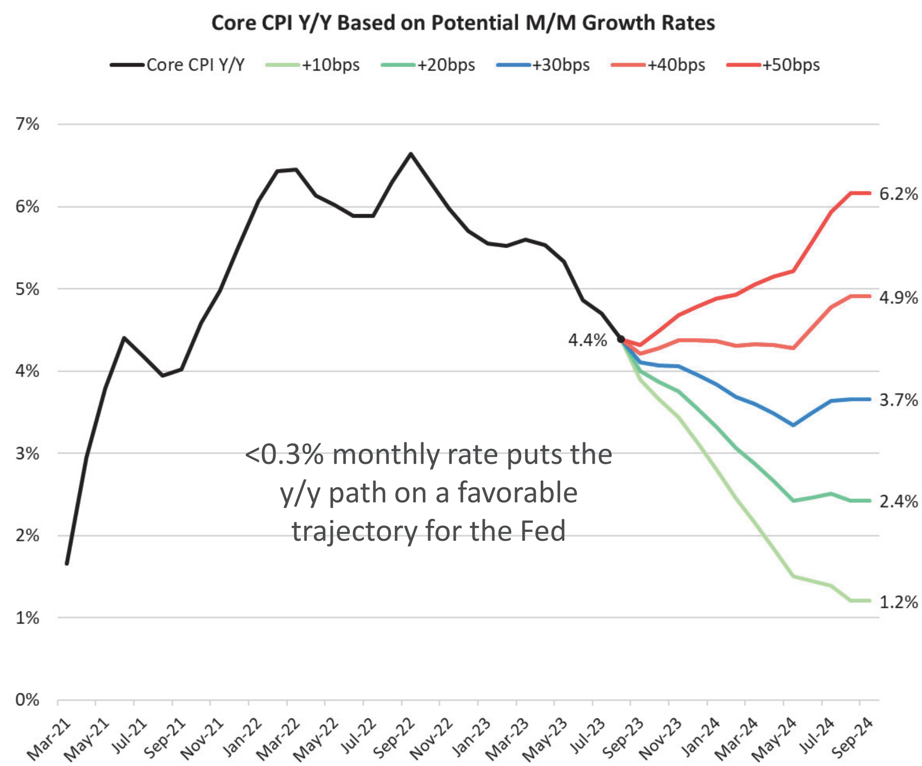
| S&P 500 Sectors | Price Return Year to Date | Sector Weighting |
|---|---|---|
| Communication Svcs. | 43.4% | 8.9% |
| Information Technology | 38.8% | 27.5% |
| Consumer Discretionary | 34.8% | 10.8% |
| ***S&P 500*** | ***16.2%*** | - |
| Industrials | 6.7% | 8.3% |
| Energy | 5.3% | 4.7% |
| Materials | 5.0% | 2.5% |
| Financials | 1.1% | 12.7% |
| Real Estate | -1.7% | 2.3% |
| Health Care | -2.7% | 13.2% |
| Consumer Staples | -3.2% | 6.5% |
| Utilities | -10.6% | 2.5% |

Source: FactSet

## INFLATION

August Core CPI came out just above expectations today at 0.28% m/m (vs 0.2% est.), bringing the y/y reading down to 4.4%. The result is unlikely to alter the Fed's thinking ahead of its rate decision next week (9/20), where we believe the Committee is likely to keep rates on hold. Combined with two consecutive 0.16% m/m core CPI readings in June and July, the 3-month annualized rate is 2.4% (in line with the Fed's target). The Fed remains far from claiming the job done on inflation; but with recent moderation in core CPI and wages, in conjunction with a normalizing jobs market, they will likely elect to wait and see how the data develops further. The Fed remains committed to bringing inflation down and keeping it there, so sub-0.3% m/m readings will be consistently needed to keep inflation on the right trajectory.




Source: FactSet

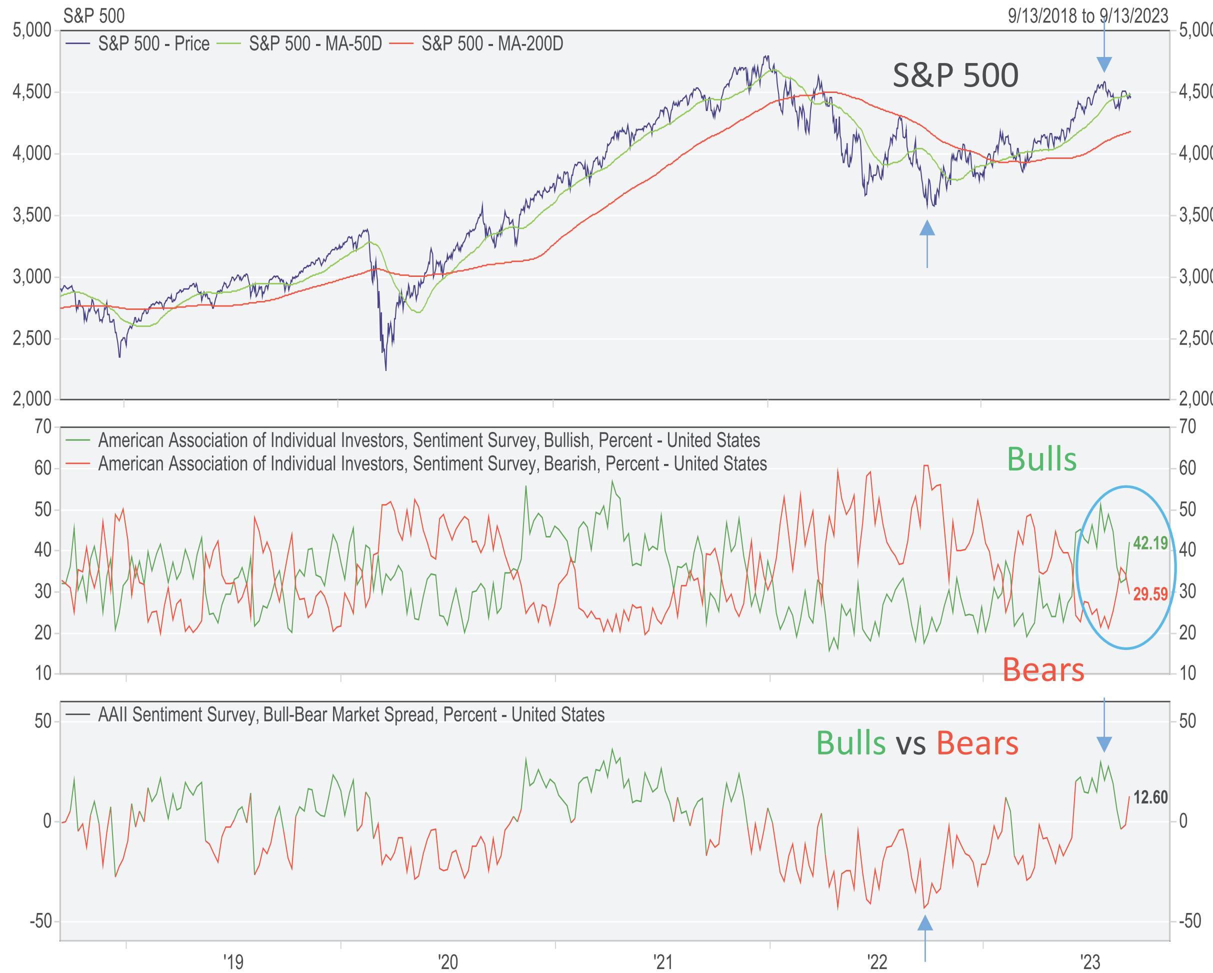
## BULLISH SENTIMENT BECOMING MORE BACK-AND-FORTH IN RECENT WEEKS

Sentiment has been a key influence on market trends over the past year. For example, investors were extremely bearish at the October lows last year as every economist expected the economy to be in recession by now. This bearishness supported the rise in equities year-to-date with the economy holding up very well.

Moreover, at the recent highs, sentiment had gotten very bullish- leading us to recommend some caution as the market gave the benefit of the doubt to a lot of economic variables that could potentially sour the mood.

We wanted to highlight sentiment lately as it has fluctuated back-and-forth. The sharp moves in bull-bear sentiment indicates how skittish investors are regarding market trends, as well as how price can often dictate sentiment.

The high level of economic uncertainty, and data-dependent Fed, will continue to make the incoming data very influential on market moves ahead. We expect economic volatility to correspond with market volatility in the outlook, but remain positive on returns over the next 12 months. Accordingly, we would be pragmatic with purchases and use the pullback periods as opportunity.




Source: FactSet

## TECHNICAL: S&P 500


Source: FactSet

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In the short term, we have a bias that the ongoing consolidation phase will continue- which we view as healthy digestion following the June-July run-up. Monitor technical resistance for the S&P 500 at ~4600 and technical support at ~4335.

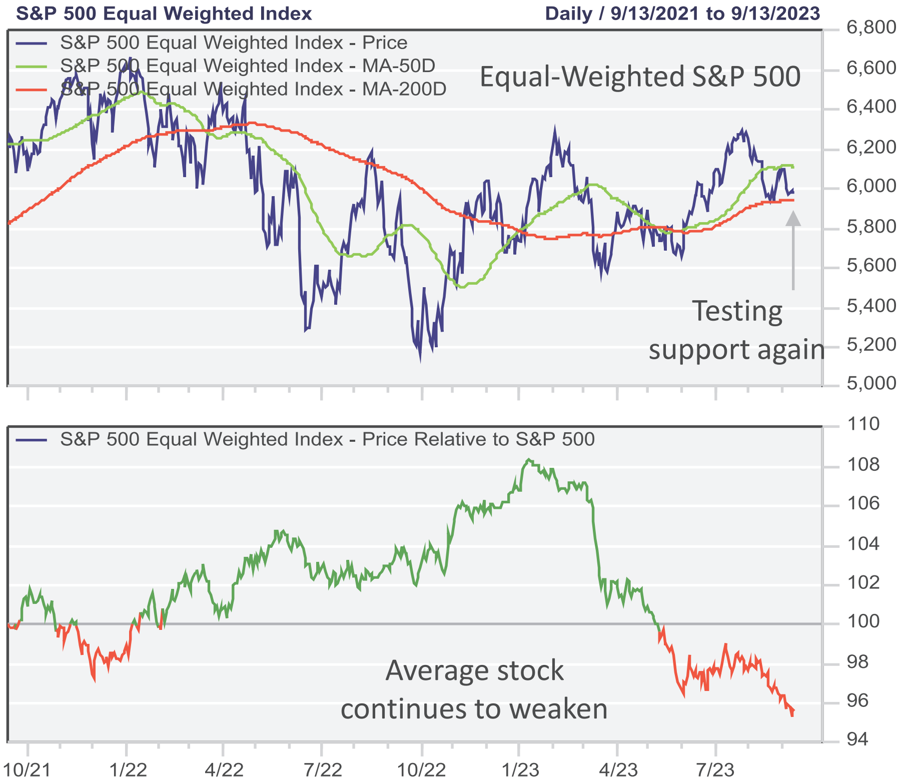
We also see good support at ~4200 (200-day moving average and June breakout level), which would be a very normal 9% pullback from the recent highs.

The incoming data (and market reaction) will continue to impact the tug-of-war for investors between market momentum/soft landing narrative and weak leading economic indicators.

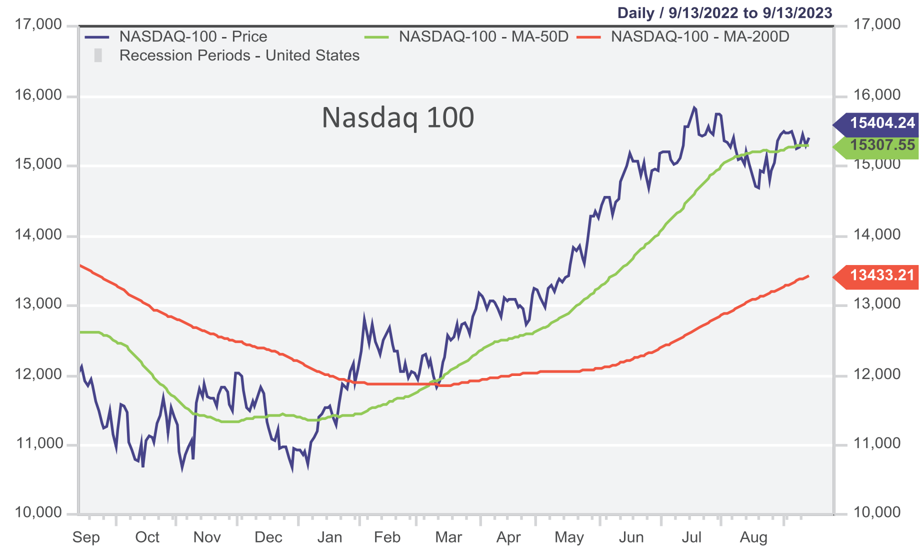
We maintain a positive 12-month outlook on equities. Expect volatility and normal pullbacks (as economic volatility transpires), but use them opportunistically.

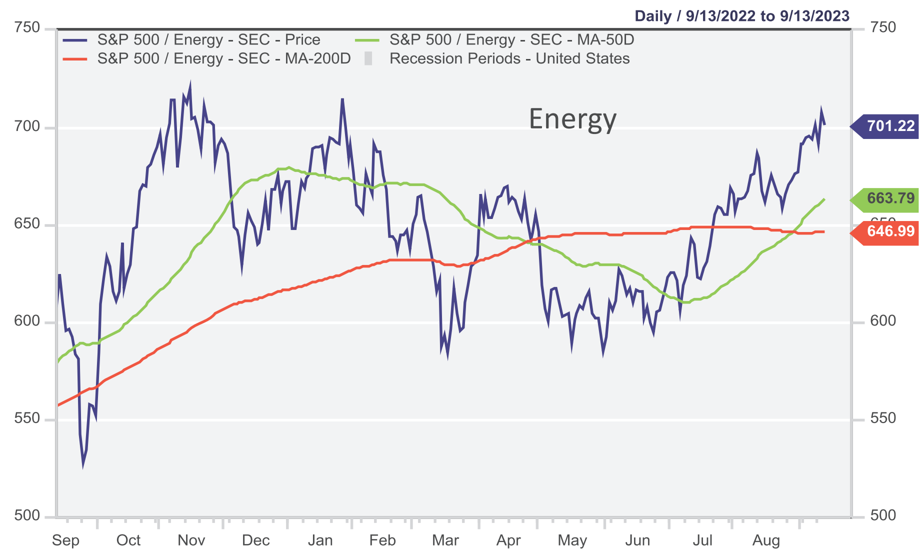
## PERFORMANCE REMAINS ONE-SIDED

Market performance remains very one-sided and top-heavy. Tech-oriented stocks have driven S&P 500 gains this year, and Energy has also acted as leadership over the past couple of months. Outperformance for both areas has been supported by better earnings. On the flip side, the "average stock" has continued to underperform. The S&P 500 equal-weighted index is testing support at the 200 DMA again; but until performance can show consistent breadth improvement, the trend favors the leaders.




Source: FactSet



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