October 2nd, 2023

VERED WEALTH MANAGEMENT (CANADA) COMPANY LIMITED

Weekly Market Guide

Last Wednesday's FOMC announcement was the catalyst for heavy selling pressure over the past week- resulting in 4 out of 5 down-days that closed on the lows. The S&P 500 has pulled back 7% from its recent July highs and equal-weighted S&P 500 index -9%.

Fed Message: The path of least resistance is rates being higher (or here) for longer with inflation still elevated and jobs strong. With economic growth holding up well, inflation may linger for longer; and as a result, rates will need to stay higher (in restrictive territory). The Fed took 50 basis points worth of cuts out of its rate expectations for next year, putting upward pressure on bond yields. The US 10-year yield is now up to 4.55% (15-year highs).

The market's reaction to this message (justifiably) has been to walk back its soft-landing optimism and timeline of eventual rate cuts.

Short-term: Equities are oversold and near support. 4200 represents the 200-day moving average and breakout point in June. This is a key technical level to monitor and should offer support on initial test. The percentage of S&P 500 stocks above their 20- and 50-day moving averages is 9% and 13% respectively- levels where at least relief rallies are often experienced. **The pullback may ultimately have more to go in time or price, but the selloff is becoming overdone in the short-term.** Watch bond yields- the US 10-year Treasury yield has become an important market influence again.

Intermediate-term: The overall uptrend remains in place for the S&P 500. We do expect a mild recession to occur, and the inverted yield curve leaves the economy more susceptible to shocks. But the Fed has also shown its hand (March bank crisis) that it will step in to support the economy when needed.

The Fed has a dual mandate of low inflation and maximum employment. Right now, it is focused on high inflation with employment solid. However in our view, as the economy weakens, companies will pull back on labor to protect their fundamentals and inflation will come down (recessions are disinflationary). This will allow the Fed to pivot toward cuts, and a market that has been enamored with monetary policy for the better part of 15 years will find some comfort in that. Bond yields will likely peak and move lower, and valuations will expand as investors price in the eventual economic recovery. **With this in mind, we believe the S&P 500 can regain 4800 highs by year-end 2024 (+13% from today's levels prior to dividends).**

Continue to use the pullback periods as longer-term opportunity. Those with cash waiting to be deployed can start putting money to work.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	1.4%	14.9%
S&P 500	11.3%	16.9%
S&P 500 (Equal-Weight)	-0.2%	9.6%
NASDAQ Composite	24.8%	20.9%
Russell 2000	0.0%	6.4%
MSCI All-Cap World	8.1%	16.8%
MSCI Developed Markets	4.5%	22.4%
MSCI Emerging Markets	-1.0%	6.6%
NYSE Alerian MLP	11.8%	27.1%
MSCI U.S. REIT	-5.3%	-2.4%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Communication Svcs.	38.1%	8.8%
Information Technology	32.1%	27.2%
Consumer Discretionary	24.3%	10.6%
S&P 500	***11.3%***	-
Energy	2.7%	4.7%
Industrials	2.5%	8.3%
Materials	0.2%	2.4%
Financials	-2.7%	12.9%
Health Care	-4.6%	13.5%
Consumer Staples	-5.9%	6.6%
Real Estate	-8.5%	2.2%
Utilities	-13.2%	2.5%

Source: FactSet

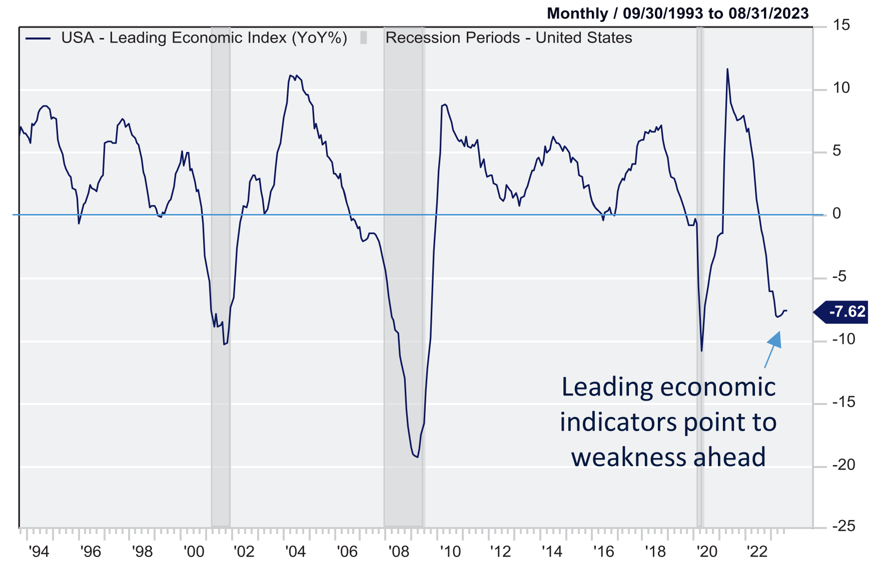
MACRO: US

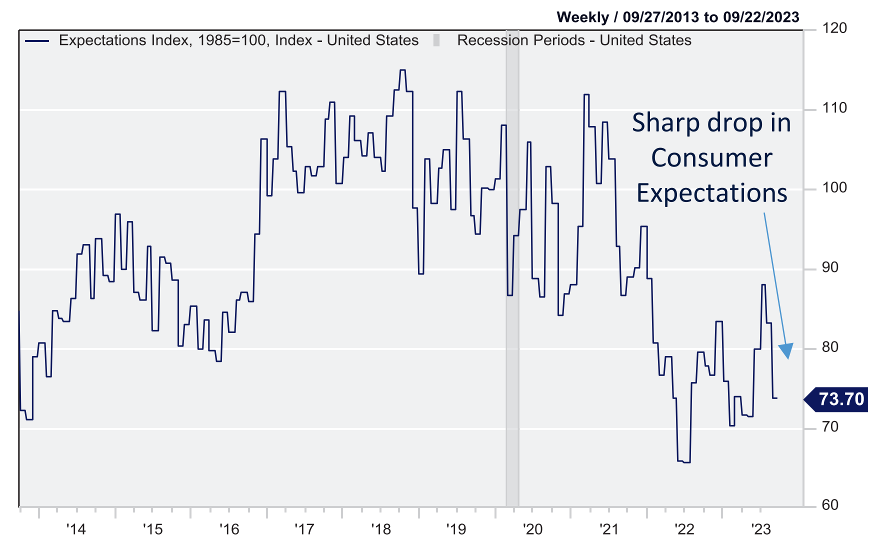
The Fed's actions to bring inflation down to a more reasonable level are (intentionally) weighing on economic demand. Growth has held up well this year due to the undersupplied labor market and fiscal stimulus, but this is pushing out the time line of economic weakness in our view. Leading economic indicators still point to some struggles ahead.

Higher bond yields and oil prices are added headwinds for the consumer (increasing costs). For example, there was a sharp drop in Expectations within the September Consumer Confidence survey. The consumer has kept the US economy afloat this year, so a softer consumer only supports our expectations of a mild recession.

Event	Period	Actual	Consensus	Prior
Current Account SA	Q2	-$212.1B	-$219.5B	-$214.5B
Continuing Jobless Claims SA	09/09	1,662K	1,692K	1,683K
Initial Claims SA	09/16	201.0K	225.0K	221.0K
Philadelphia Fed Index SA	SEP	-13.5	-0.40	12.0
Existing Home Sales SAAR	AUG	4,040K	4,100K	4,070K
Leading Indicators SA M/M	AUG	-0.40%	-0.40%	-0.30%
PMI Composite SA (Preliminary)	SEP	50.1	50.2	50.2
Markit PMI Manufacturing SA (Preliminary)	SEP	48.9	47.9	47.9
Markit PMI Services SA (Preliminary)	SEP	50.2	50.3	50.5
Chicago Fed National Activity Index	AUG	-0.16	-0.03	0.07
Dallas Fed Index	SEP	-18.1	-12.0	-17.2
Building Permits SAAR (Final)	AUG	1,541K	1,442K	1,543K
S&P/Case-Shiller comp.20 HPI M/M	JUL	0.90%	0.60%	0.91%
S&P/Case-Shiller comp.20 HPI Y/Y	JUL	0.13%	0.30%	-1.2%
Consumer Confidence	SEP	103.0	105.0	108.7
New Home Sales SAAR	AUG	675.0K	699.0K	739.0K
Richmond Fed Index	SEP	5.0	-7.0	-7.0
Durable Orders ex-Transportation SA M/M (Preliminary)	AUG	0.40%	0.20%	0.10%
Durable Orders SA M/M (Preliminary)	AUG	0.20%	-0.40%	-5.6%

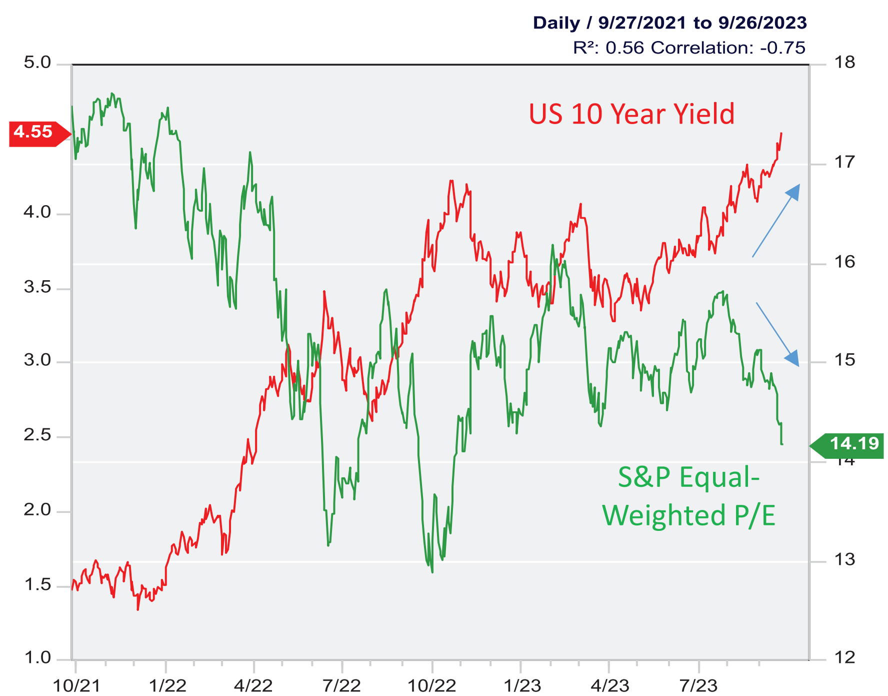
Source: FactSet





BOND YIELDS VS. VALUATION

The S&P 500's upside this year has been completely valuation-driven. Not everything is expensive (Tech-oriented stocks stretch the S&P 500 P/E), but bond yields are a key influence on stock valuations. As you can see, there has been a 75% inverse correlation between the US 10-year Treasury yield and Equal-Weighted S&P 500 P/E over the last two years. For now, higher bond yields are a headwind to sustainable upside in equities. Over the next 12-months, we believe bond yields will be moving lower (as the Fed pivots), allowing valuations to drive markets higher despite lower earnings in a mild recession. With this in mind, we believe the S&P 500 can regain 4800 highs by year-end 2024 (+13% from today's levels prior to dividends).



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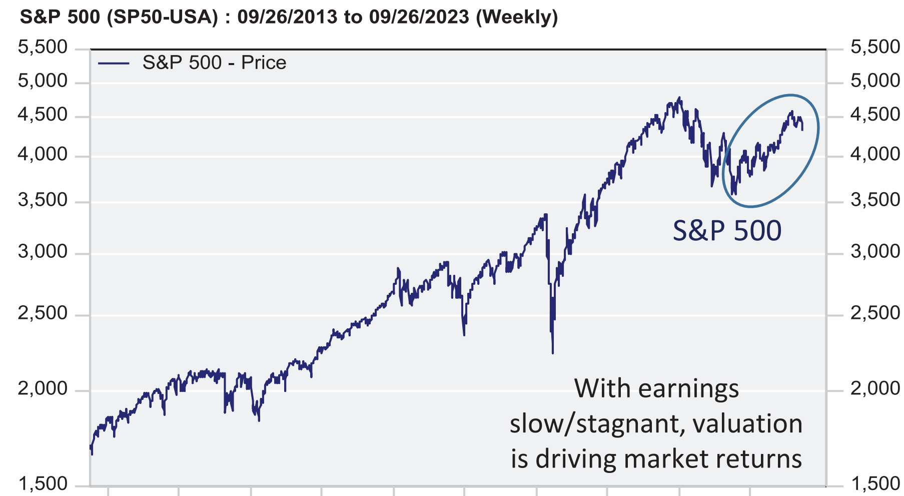

TECHNICAL: S&P 500

Source: FactSet

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In the short-term, the S&P 500 is oversold and near support. 4200 represents the 200-day moving average and breakout point in June. This is a key technical level to monitor and should offer support on initial test.

The overall uptrend remains in place for now. The pullback may ultimately have more to go in time or price, but the selloff is becoming overdone in the short-term. Watch bond yields- the US 10-year Treasury yield has become an important market influence again.

Prior support now becomes potential resistance, so price action will need to be monitored at ~4335 (horizontal resistance at Aug and June pullbacks), 4462 (50 DMA), and 4600 (July highs). It may take some back-and-forth before equities are able to break out to new highs. We recommend using the drawdown periods (like now) as opportunity to deploy cash.

FED EXPECTATIONS

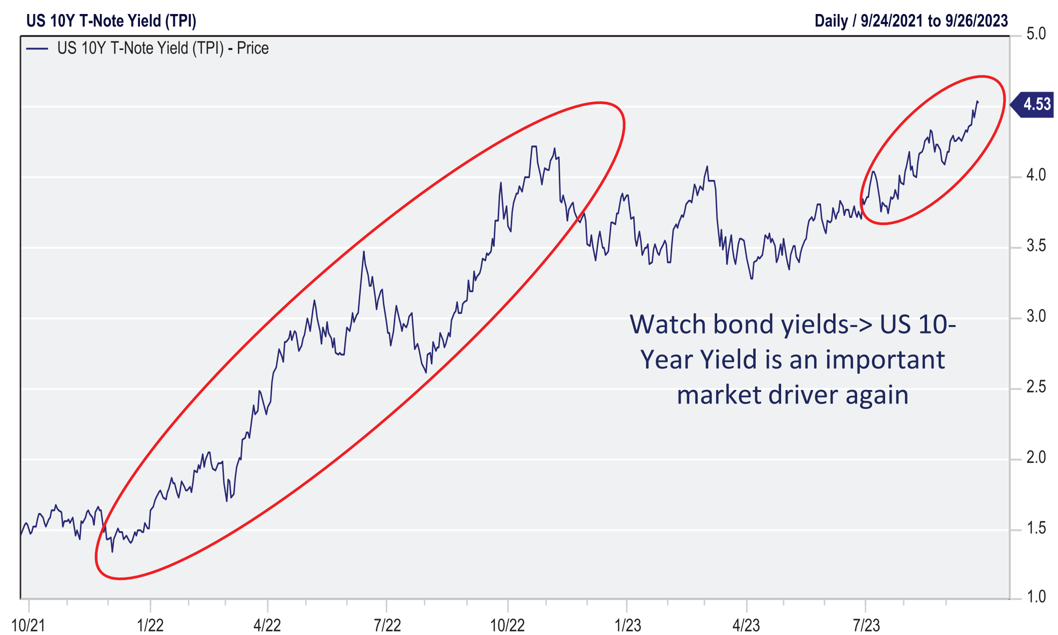
Variable	Median[1]				
	2023	2024	2025	2026	Longer run
Change in real GDP	↑ 2.1	1.5	1.8	1.8	1.8
June projection	1.0	1.1	1.8		1.8
Unemployment rate	↓ 3.8	4.1	4.1	4.0	4.0
June projection	4.1	4.5	4.5		4.0
PCE inflation	↑ 3.3	2.5	2.2	2.0	2.0
June projection	3.2	2.5	2.1		2.0
Core PCE inflation[4]	3.7	2.6	2.3	2.0	
June projection	3.9	2.6	2.2		
Memo: Projected appropriate policy path					
Federal funds rate	↑ 5.6	5.1	3.9	2.9	2.5
June projection	5.6	4.6	3.4		2.5

+50bps

Source: FactSet

Bottom line of the FOMC announcement- economic growth is coming out stronger, inflation may linger longer than expected, and (as a result) rates will stay higher. The Fed took 50 basis points worth of cuts out of its 2024 rate projection, due to higher GDP growth expectations, a lower unemployment forecast, and elevated inflation. The market is somewhat skeptical of the Fed's forecast, and still prices in cuts late next year- but the path of least resistance for bond yields remains higher for now.

The US 10-year Treasury yield has climbed to 4.55% (15-year highs) and will be an important equity market influence again. The steady climb higher in bond yields (as Fed rate hikes picked up) was a headwind for equities last year, and the 10yr peak coincided with stock market lows. However, renewed momentum higher for bond yields is putting pressure on equities once again, and will be an important influence on market trends ahead.



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