October 30th, 2023

VERED WEALTH MANAGEMENT (CANADA) COMPANY LIMITED

Weekly Market Guide

Momentum in Equities Waning as breakdown in recent uptrend: With the equity market down ~9% from its high, momentum has been waning for equities as rising bond yields are becoming a market headwind again. The recent breakout in the 10-year yield has led to increased volatility in equities, and this week, the trend (which had been your friend), was broken as the S&P 500 broke below its 200-DMA, which leaves the S&P 500 vulnerable to a move to 3900-4200 in the near-term. For now, it appears, that equities will remain challenged until bond yields find some stability. A quick reversal in bond yields may allow some reprieve in the selling pressure and allow equities to resume its uptrend. However, if the 10-year yield continues its ascent higher, equities may remain volatile in the near-term, as the S&P 500 is not yet oversold. We are watching the 4171 level for initial support, followed by 4100.

Sector Rotation- Shifting More Defensive Near-term: We have started to see some rotation into the more defensive areas of the market and away from some of the areas in which relative strength (such as semiconductors index which broke below its 200-DMA) had been holding up better, which gives some pause in the near-term. However, longer-term, we remain constructive on equities as positive intermediate-term to long-term signals for the risk appetite favors the bulls.

Bond Yields Remain the Most Influential Factor For Equities Near-term: Rising bond yields are likely the most influential factor near-term for equities. For now, we will watch to see if bond yields are able to break above 5%, which was breached earlier this week. If bond yields break 5%, the next Fibonacci retracement would imply the path of least resistance would be to the upside, which likely pressures equities and increases volatility near-term. On the other hand, if bond yields are peaking, equities may be able to stabilize following this recent sell-off.

Bifurcated Market Painting a Much Rosier Picture than Reality: YTD S&P 500 returns paint a much rosier picture than reality. Overall, the cap-weighted S&P 500 is up 10.6% YTD, however, this can be attributed to the “Magnificent 7”—seven large-cap Tech names in which the contribution to the cap-weighted S&P 500 returns is over 100% this year. In fact, the average stock (S&P 500 equal-weight index) is down 3.1% YTD, and nearly half of S&P 500 constituents are in a bear market (from their respective 52-week high), while the S&P 500 is down only about 9% off its high. The one dimensional market, leaves the S&P 500 vulnerable to increased volatility.

Earnings Season: In the prior two earnings seasons, EPS saw sharp revisions higher (after an initial decline), which proved to be a catalyst for equities. Over 30% of S&P 500 market cap has already reported earnings, and the results thus far have been mixed. Despite 74% of companies beating expectations by an average surprise of 6.5%, the price reaction has been muted, with the average stock down 0.7% the following day after reporting earnings.

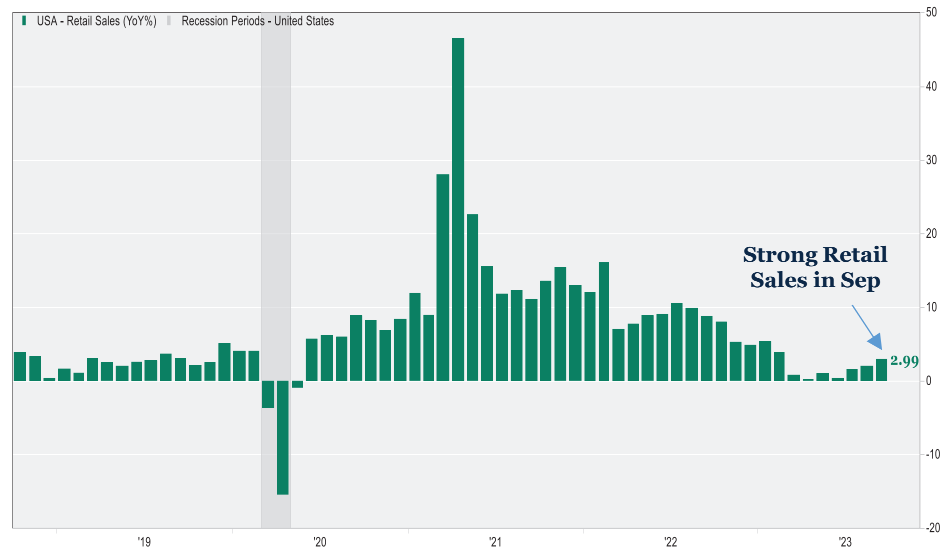
Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	0.0%	5.2%
S&P 500	10.6%	11.9%
S&P 500 (Equal-Weight)	-3.1%	2.0%
NASDAQ Composite	25.5%	20.0%
Russell 2000	-4.6%	-3.9%
MSCI All-Cap World	6.4%	12.0%
MSCI Developed Markets	1.0%	14.9%
MSCI Emerging Markets	-3.7%	9.2%
NYSE Alerian MLP	14.6%	13.9%
MSCI U.S. REIT	-8.9%	-4.2%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Communication Svcs.	45.6%	9.2%
Information Technology	35.1%	28.0%
Consumer Discretionary	20.5%	10.5%
S&P 500	***10.6%***	-
Industrials	0.7%	8.3%
Energy	-0.3%	4.6%
Materials	-3.1%	2.4%
Financials	-6.0%	12.5%
Health Care	-6.2%	13.3%
Consumer Staples	-8.1%	6.5%
Real Estate	-11.4%	2.2%
Utilities	-16.4%	2.4%

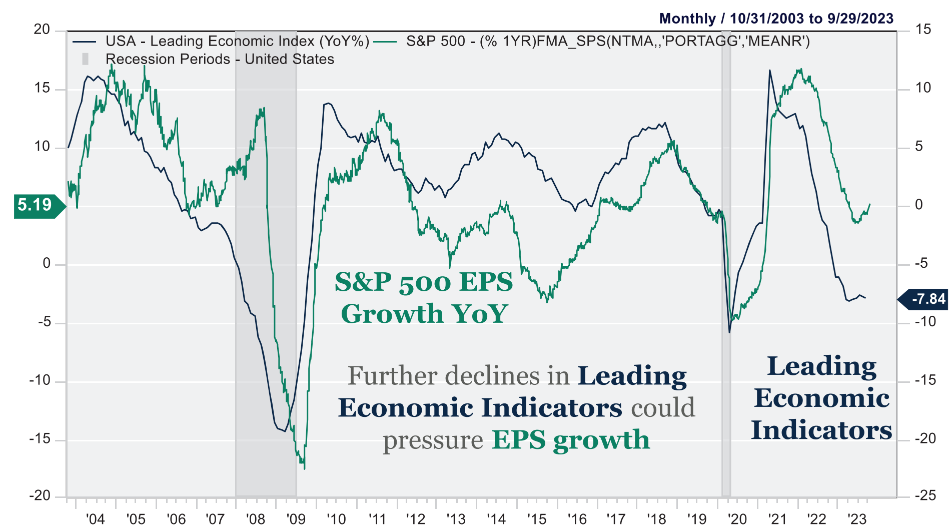
Source: FactSet

MACRO: US

Despite a relatively quiet economic calendar over the past week, the macro data continues to point to mixed data points. On the positive front, recently, we received strong retail sales data of +0.7% MoM, which continues to point to a resilient U.S. consumer, which is important given that nearly 2/3 of U.S. economy is consumer driven. Moreover, Markit PMI (both Manufacturing and Services) are back into expansionary territory (above 50). In fact, Manufacturing PMI of 50.0 was the highest reading in nearly 6 months. However, on the more cautious side, leading economic indicators, which have traditionally been a recessionary signal when they move negative, continue to weaken (down 0.7% MoM). For now, we continue to see the economy as relatively resilient, but caution against becoming complacent given that economic momentum can shift quickly, especially around recessions/periods of economic softness, which remains our base case for 2024.



Event	Period	Actual	Consensus	Surprise	Prior
Continuing Jobless Claims SA	10/07	1,734K	1,698K	36.5K	1,705K
Initial Claims SA	10/14	198.0K	212.0K	-14.0K	211.0K
Philadelphia Fed Index SA	OCT	-9.0	-6.4	-2.6	-13.5
Existing Home Sales SAAR	SEP	3,960K	3,900K	60.0K	4,040K
Leading Indicators SA M/M	SEP	-0.70%	-0.40%	-0.30%	-0.50%
Chicago Fed National Activity Index	SEP	0.02	-0.25	0.26	-0.22
PMI Composite SA (Preliminary)	OCT	51.0	50.0	1.0	50.2
Markit PMI Manufacturing SA (Preliminary)	OCT	50.0	49.5	0.50	49.8
Markit PMI Services SA (Preliminary)	OCT	50.9	49.9	1.0	50.1
Richmond Fed Index	OCT	3.0	0.0	3.0	5.0
Building Permits SAAR (Final)	SEP	1,471K	1,473K	-2.0K	1,473K
New Home Sales SAAR	SEP	759.0K	680.0K	79.0K	676.0K

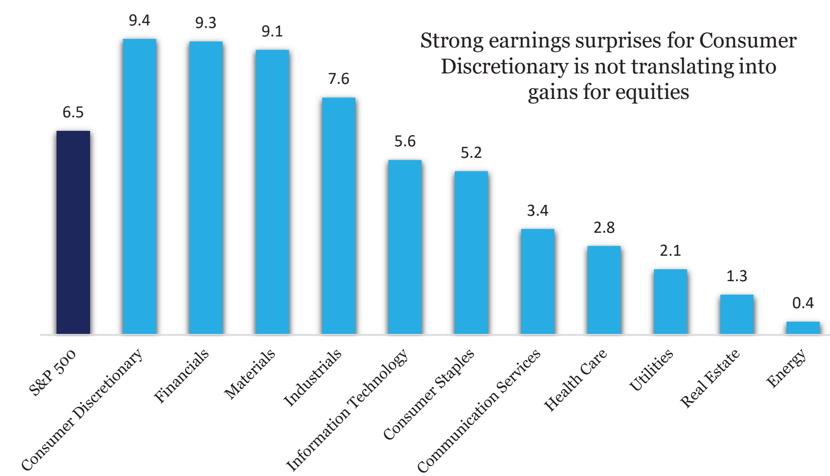


Source: FactSet

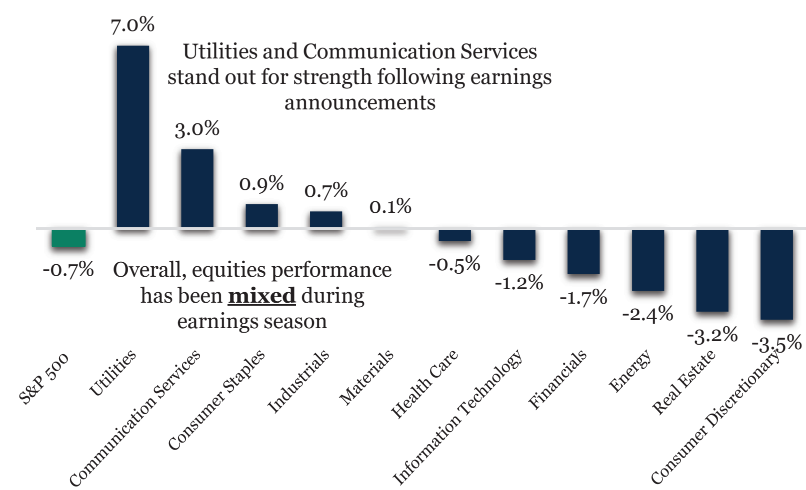
Q3 Earnings Season

Q3 earnings season is in full swing with several of the mega-cap companies reporting this week. Overall, over 30% of S&P 500 market cap has already reported earnings, and the results thus far have been mixed. Despite 74% of companies beating expectations by an average surprise of 6.5%, this is a deceleration from the prior quarter that saw 79% of companies beating by an average surprise of 7.7% and is also below the 5-year average of 76% of companies beating by an average surprise of 8.5%. Additionally, the price reaction has been muted, with the average stock down 0.7% the following day after reporting earnings. From a price reaction standpoint, Communication Services and Utilities stand out. Communication Services remain leadership while Utilities, which were oversold and entered earnings season with low expectations, have seen the best price reaction. We will continue to watch earnings estimates (as seen below). In the prior two earnings seasons, EPS saw sharp revisions higher (after an initial decline), which proved to be a catalyst for equities. We are seeing similar trends thus far, as earnings recently hooked higher, but will continue to monitor this trend.

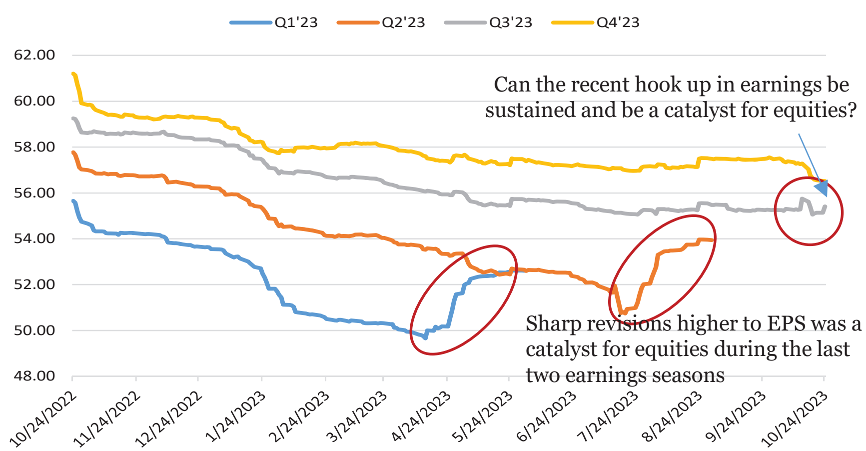
3Q'23 EPS Surprise



Q3'23 1-Day Price Reaction Following Earnings



2023 Quarterly Earnings Estimates



Source: FactSet

Bond Yields

Rising bond yields are likely the most influential factor near-term for equities. After finding some relative stability for the better part of the last year, which was positive for equities, bond yields have once again become a market headwind, much like we witnessed in CY'22. However, this begs the question, how high do yields go or are they near a peak? For now, we will watch to see if bond yields are able to break above 5%, which was breached earlier this week. If bond yields break 5%, the next Fibonacci retracement would imply the path of least resistance would be to the upside for bond yields, which likely pressures equities and increases volatility. On the other hand, if bond yields are peaking, equities may be able to stabilize following this recent sell-off.

Source: FactSet

S&P 500 Painting a Much Rosier Picture than Reality

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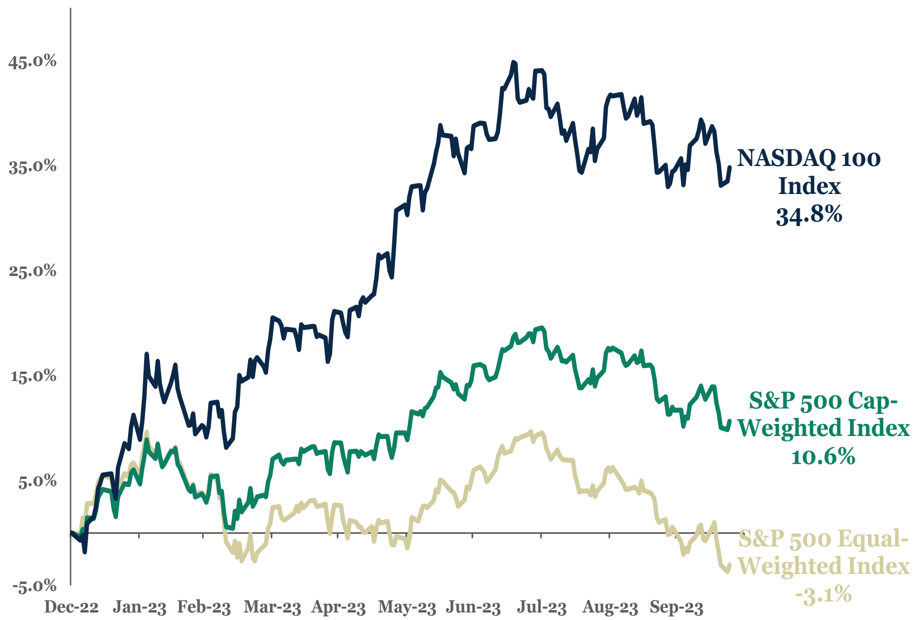
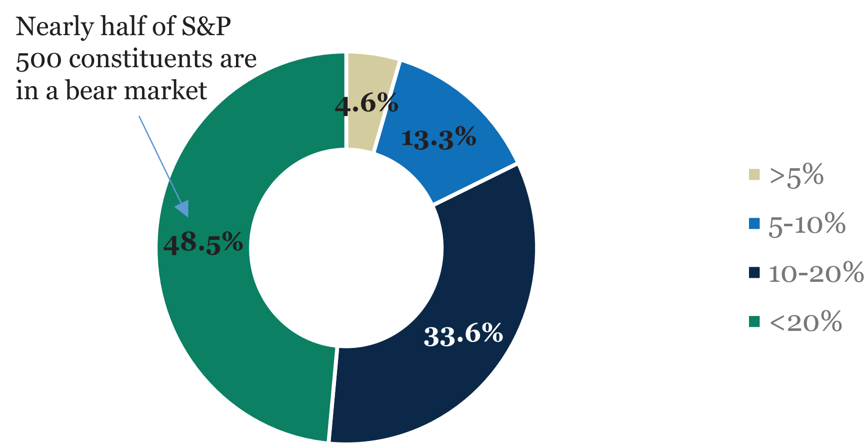


Source: FactSet

Magnificent 7 % Contributions to S&P 500 Returns

% of S&P 500 Stocks Down from Highs



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