VERED WEALTH MANAGEMENT (CANADA) COMPANY LIMITED

December 4th, 2023

Weekly Market Guide

The S&P 500 is up ~12% over the past month on easing Fed expectations and lower bond yields. Strong momentum from the lows, in conjunction with supportive economic data, paints a good picture for the balance of the year (allowing for some pullback/basing near-term).

In the short-term, equities are extended and near resistance at prior highs (July peak). The odds are high that we get some consolidation (pullback or move sideways), which would be healthy. We continue to view weakness as opportunity. Seasonality and a healthy consumer bode well for markets into year-end, as do bond yields subsiding their rise. Additionally, the past month's gains are in the top 2% of all monthly returns over the past 70 years- and strength often begets strength. Above average returns have typically followed similar gains over the ensuing 3-, 6-, and 12-month timeframes.

Big picture, we still believe that economic weakness will transpire down the road. The lagged effects of rapid Fed hikes, tight lending, inverted yield curve, and weak leading economic indicators (among others) all suggest that will occur. And economic volatility can lead to market volatility. In addition, the market expectation for Fed policy has shifted from "higher for longer" toward potential cuts in 1H 2024- begging the question has the market over-corrected the narrative? The Fed is still battling elevated inflation, and higher equities/lower yields are inflationary.

Despite our concerns on economic activity and potential Fed messaging, a lot of negativity has already been discounted in our view. The "average stock" trades at a 8% discount to its 10-year average P/E and is still trying to come off bear market lows. Bond yields, which have exhibited an inverse correlation to equities over the past two years, remain a catalyst. The US 10-year Treasury yield has pulled back to 4.29% from a 5% peak in October, and its trend may become more sideways from here. Eventually, lower bond yields (as the economy softens) may allow higher valuations to act as an offset to potential earnings weakness. **Thus, we believe valuation will be the driver of positive returns over the next 12 months (almost always the case out of recessionary bear markets).**

In sum: Maintain discipline- stocks are extended and will likely consolidate in the short-term. The road may be bumpy, but we do expect equities to climb out of this bear market (which is approaching two years in length) over the next 12 months. We recommend using weakness as opportunity, and believe that many of the lagging areas can offer outsized gains once the market shifts into the next bull market.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	6.8%	4.6%
S&P 500	18.6%	14.9%
S&P 500 (Equal-Weighted)	3.4%	1.0%
NASDAQ Composite	36.5%	29.3%
Russell 2000	1.8%	-2.1%
MSCI All-Cap World	14.3%	12.1%
MSCI Developed Markets	9.0%	8.7%
MSCI Emerging Markets	3.0%	5.9%
NYSE Alerian MLP	16.6%	14.0%
MSCI U.S. REIT	-1.3%	-3.2%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Information Technology	50.8%	29.2%
Communication Svcs.	50.5%	8.8%
Consumer Discretionary	33.7%	10.8%
S&P 500	***18.6%***	-
Industrials	7.1%	8.2%
Materials	4.2%	2.4%
Financials	2.7%	12.8%
Real Estate	-1.5%	2.3%
Energy	-4.4%	4.1%
Consumer Staples	-4.5%	6.3%
Health Care	-4.9%	12.6%
Utilities	-11.4%	2.4%

Source: FactSet

Macro: US – Watch Bond Yields

The holiday week was light on economic data, though there were a few items to note. November PMI reflected slower expectations of economic growth ahead. In addition, high interest rates continue to impact the housing market. The result of a softening macro-environment and moderating inflation has been easier Fed expectations over recent weeks- seeing the US 2-year Treasury yield move down to 4.6% (and now testing support at its 200-day moving average). The market's interpretation of Fed policy has shifted from "higher for longer" toward potential cuts in 1H'24- begging the question has the market over-corrected the narrative?

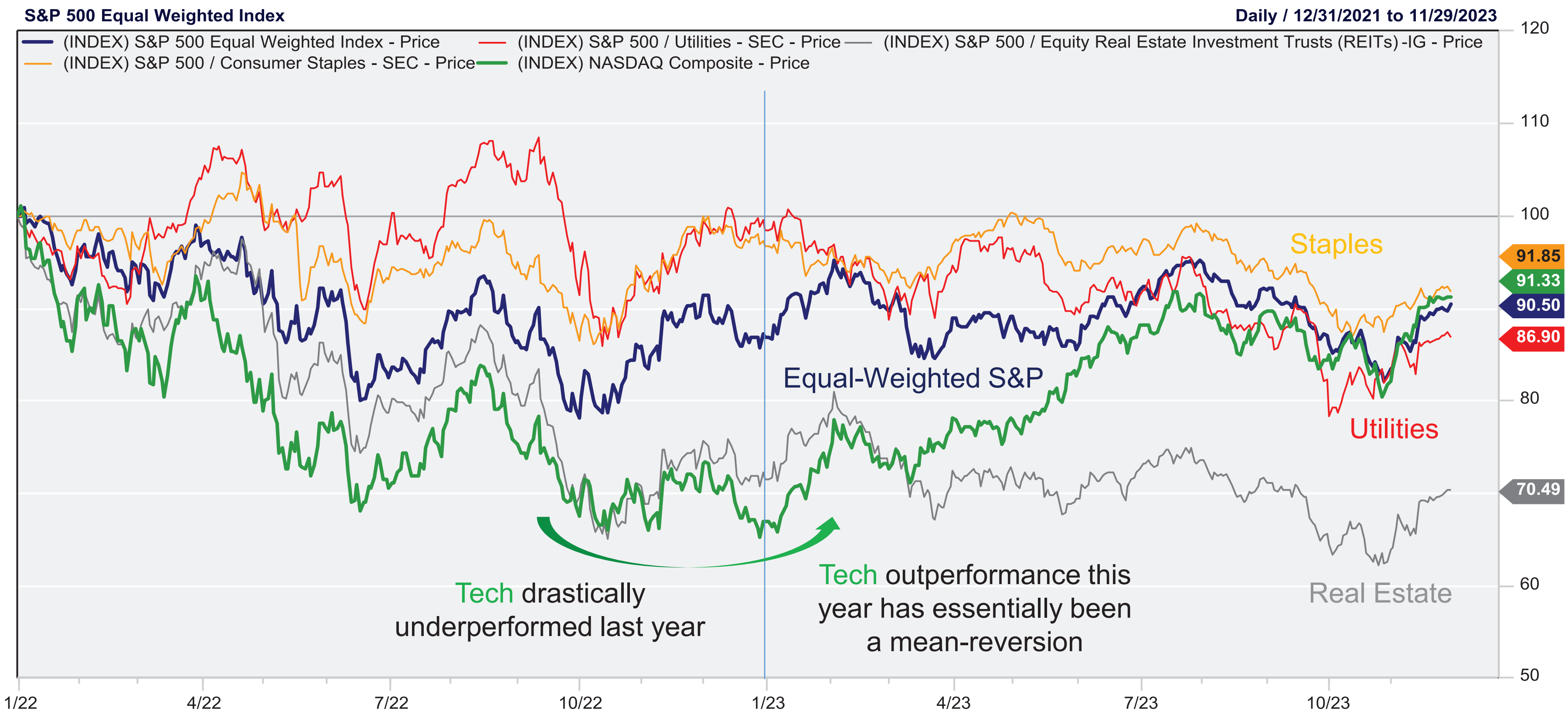
Watch bond yields because they have exhibited an inverse correlation to equity markets over the past two years. Economic data picks up over the coming weeks, and will be a significant influence. On the agenda, Core PCE and ISM Manufacturing come out this week, followed by employment-heavy data next week (highlighted by the November Jobs report on 12/8). We also have November CPI on 12/12, ahead of the 12/13 FOMC announcement.

Event	Period	Actual	Consensus	Prior
PMI Composite SA (Preliminary)	NOV	50.7	50.8	50.7
Markit PMI Manufacturing SA (Preliminary)	NOV	49.4	50.2	50.0
Markit PMI Services SA (Preliminary)	NOV	50.8	50.7	50.6
Building Permits SAAR (Final)	OCT	1,498K	1,487K	1,487K
New Home Sales SAAR	OCT	679.0K	721.0K	719.0K
Dallas Fed Index	NOV	-19.9	-16.0	-19.2
S&P/Case-Shiller comp.20 HPI M/M	SEP	0.70%	0.45%	0.82%
S&P/Case-Shiller comp.20 HPI Y/Y	SEP	3.9%	4.1%	2.1%
Consumer Confidence	NOV	102.0	101.0	99.1
Richmond Fed Index	NOV	-5.0	1.0	3.0
GDP SAAR Q/Q (Second Preliminary)	Q3	5.2%	4.9%	4.9%
GDP SA Y/Y (Second Preliminary)	Q3	3.0%	2.9%	2.9%

Source: FactSet

Income Strategies

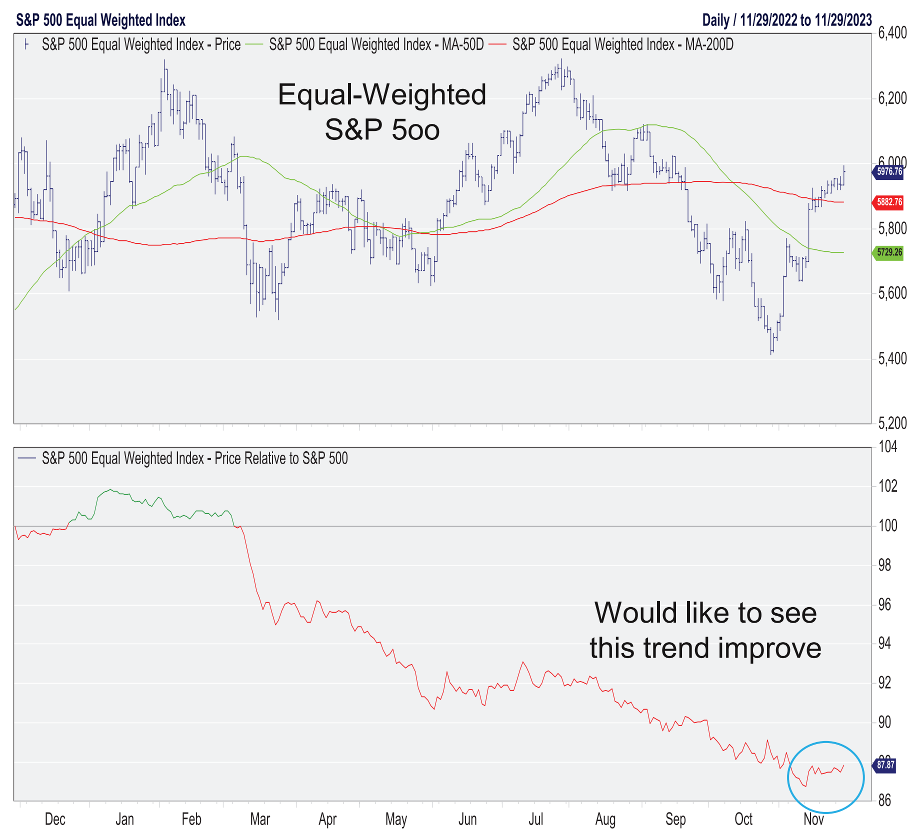
All eyes have been on the strength of Tech stocks this year with the Nasdaq Composite +36.5% year-to-date vs +3.4% for the Equal-Weighted S&P 500. This has resulted in some investors questioning the benefits of diversification. However, it is easy to forget that many of the lagging areas this year outperformed Tech to a great degree last year. For example, dividend sectors held up very well in 2022 when the Nasdaq went down -33%. When viewed through a lens of this entire bear market, the Nasdaq has essentially mean-reverted back to the "average stock"- and areas such as Utilities and Consumer Staples. Real Estate stands out as a higher-yielding area that has not kept pace. Investors have a tendency to focus on the "here and now," but we see plenty of opportunity within the lagging areas on the other side of this bear market.



Source: FactSet (M23-348235)

Technical: S&P 500

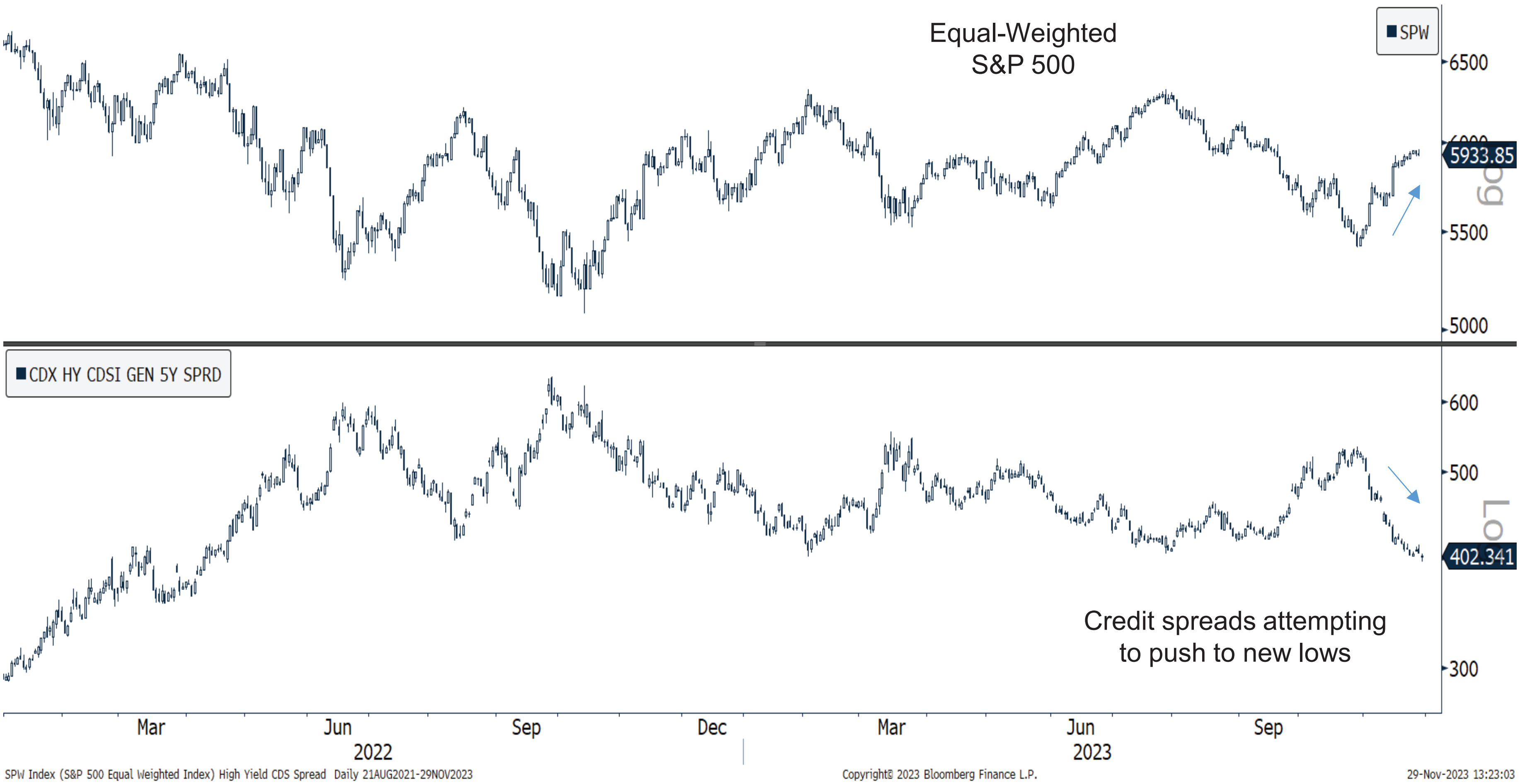
The S&P 500 is up ~12% over the past month on easing Fed expectations and lower bond yields. In the short-term, the move leaves equities extended as they near resistance at prior highs (July peak). The odds are high that we get some consolidation (pullback or move sideways), which would be healthy. We continue to view weakness as opportunity. Strong momentum from the lows, seasonality, and supportive economic data bode well for overall market trends into year-end. Additionally, the past month's gains are in the top 2% of all monthly returns over the past 70 years- and strength often begets strength. Above average returns have typically followed similar gains over the ensuing 3-, 6-, and 12-month timeframes. What we would like to see develop is broader participation beneath the surface. Relative strength for the equal-weighted S&P 500 has yet to alter its downward trend.



Source: FactSet

Credit Spreads

Credit spreads are behaving, as they attempt to push to year-to-date lows. This is a positive message from the bond market, regarding underlying stress on corporate balance sheets, and suggests an upward bias to equities.



Source: Bloomberg

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