December 18th, 2023

VERED WEALTH MANAGEMENT (CANADA) COMPANY LIMITED

Weekly Market Guide

The S&P 500 has surged higher since late October, in conjunction with supportive economic data and lower bond yields. Equities are overbought, and have stayed overbought, which bodes well for longer-term trends. But in the short-term, given the degree of the market move and 10-year yield at support, the odds are high we have some give-back soon. We would look to put money to work on weakness, and see opportunity in many areas of the market (particularly the lagging areas).

The market narrative has flip-flopped since late October- shifting from Fed expectations of "tighter for longer" to "potential cuts by March." This has been a result of lower inflation and soft, but positive employment (with moderating wage growth). While the data and market mood are rosy at the moment, we still believe the lagged effects of high interest rates will weigh on the economy ahead. Leading economic indicators (such as tight bank lending, inverted yield curve, etc.) still suggest volatility may rear its head.

While economic weakness (and/or lower inflation) may allow the Fed to ease its stance on monetary policy over the next year, we wonder if the market is shifting too far toward a dovish narrative at the moment. The market is currently pricing in the possibility of a March rate cut (3 months away!?) and 5 cuts in 2024. As a result, bond yields have moved lower (i.e. the 10-year yield is down to 4% and at long-term support). In order to push back on easing financial conditions (which have the potential to unwind some of the progress being made on inflation), the Fed may ultimately talk or act tougher than the market expects.

In sum: We expect the road to be higher, but also bumpy for equities over the next 12 months. Sentiment has shown an ability to swing rapidly- a consequence of high economic uncertainty, monthly government data (that comes with revisions), and volatile Fed messaging. We wonder if sentiment is getting too rosy in the market's straight-line upside of late, and expect some give-back soon. We would use weakness as opportunity, and are encouraged by signs of broader participation- a welcome development in what has been the widest annual underperformance for the "average stock" vs. the S&P 500 index in 15 years.

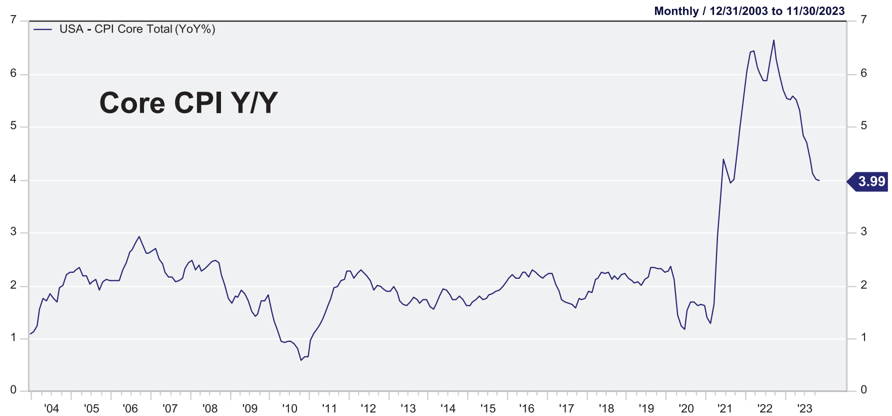
Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	5.8%	2.1%
S&P 500	20.9%	16.4%
S&P 500 (Equal-Weighted)	7.3%	4.0%
NASDAQ Composite	38.9%	30.4%
Russell 2000	6.8%	3.4%
MSCI All-Cap World	16.1%	12.8%
MSCI Developed Markets	10.3%	9.2%
MSCI Emerging Markets	2.1%	1.3%
NYSE Alerian MLP	12.7%	13.8%
MSCI U.S. REIT	3.1%	-1.1%

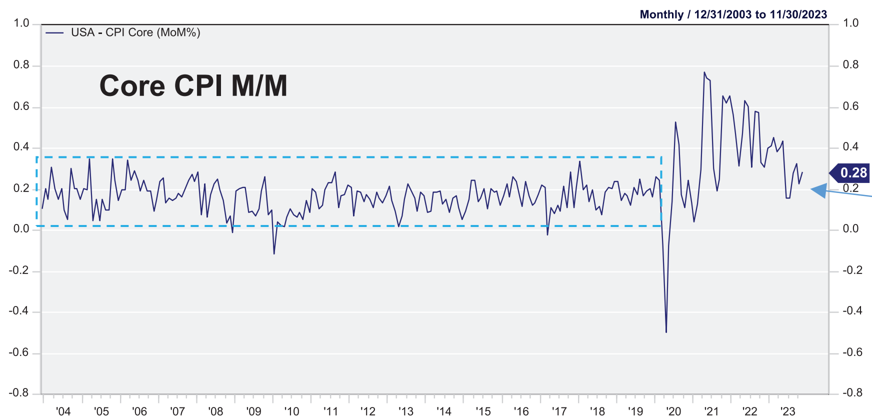
S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Information Technology	54.0%	29.2%
Communication Svcs.	47.8%	8.5%
Consumer Discretionary	36.9%	10.9%
S&P 500	***20.9%***	-
Industrials	12.0%	8.4%
Financials	6.6%	13.0%
Materials	6.3%	2.4%
Real Estate	2.1%	2.3%
Health Care	-2.1%	12.7%
Consumer Staples	-4.1%	6.2%
Energy	-8.4%	3.9%
Utilities	-10.6%	2.4%

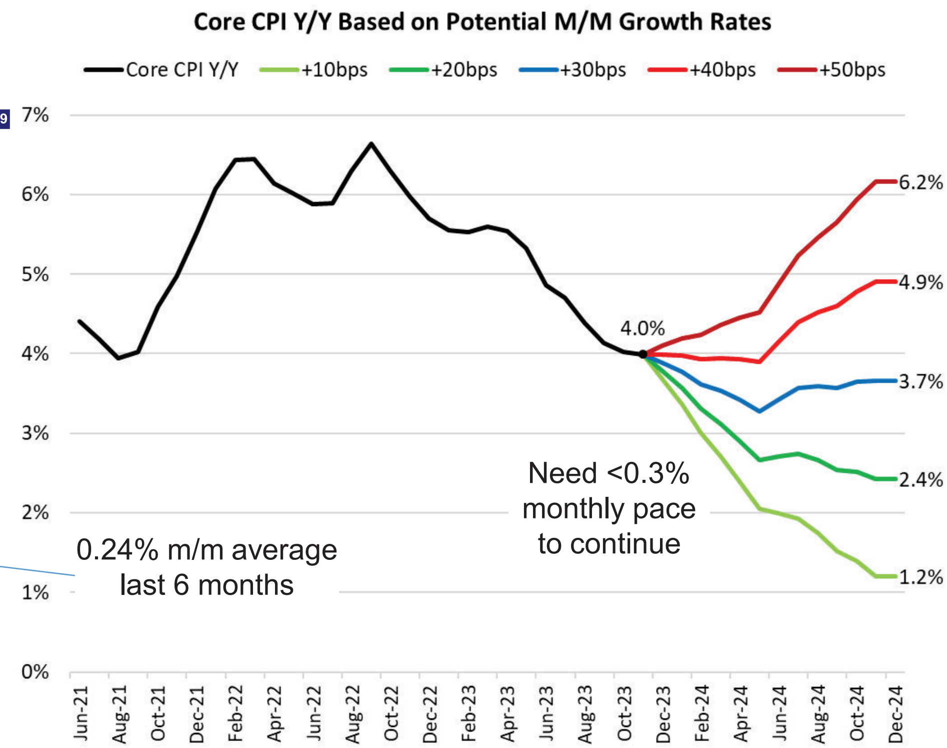
Source: FactSet

Inflation – Heading In The Right Direction

Inflation is heading in the right direction- to a degree that it can support stocks. Core CPI rose 0.28% m/m, and the 6-month average is a favorable 0.24%. This keeps the trajectory on a good path, as a 0.2% monthly pace would bring core CPI down to 2.7% y/y by next May. Additionally, November core PPI was below expectations at 0.0% (vs. 0.2% estimate)- indicating that inflationary pressures should continue to abate. The Fed wants to make sure that inflation comes down (and stays down), but the recent data provides encouragement that inflation is normalizing toward a healthy, sustainable level. Over the next 12 months, we believe the market focus will shift from inflation to the macro.



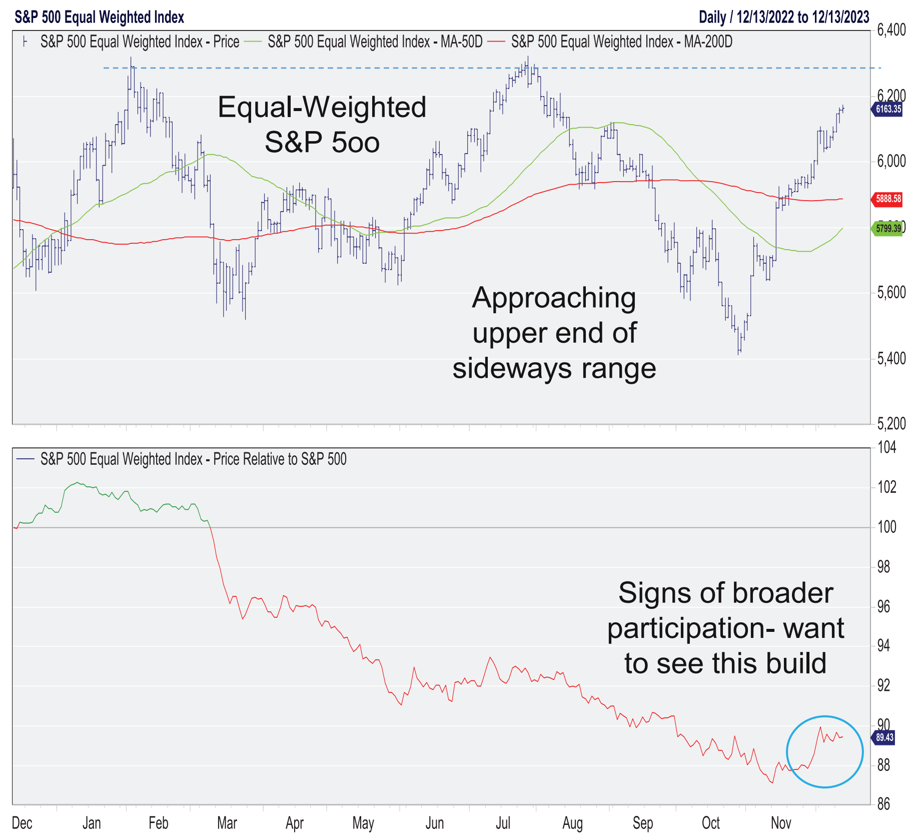




Source: FactSet

Technical: S&P 500

The S&P 500 has surged higher since late October, in conjunction with supportive economic data and lower bond yields. Equities are overbought, and have stayed overbought, which bodes well for longer-term trends. But in the short-term, given the degree of the market move and 10-year yield at support, the odds are high we have some give-back soon. Additionally, the straight-line higher has the equal-weighted S&P 500 index approaching the upper end of its year-long sideways range, which may act as resistance. We would look to put money to work on weakness, and see opportunity in many areas of the market (particularly the lagging areas).



Source: FactSet

Fed Expectations Driving The Market

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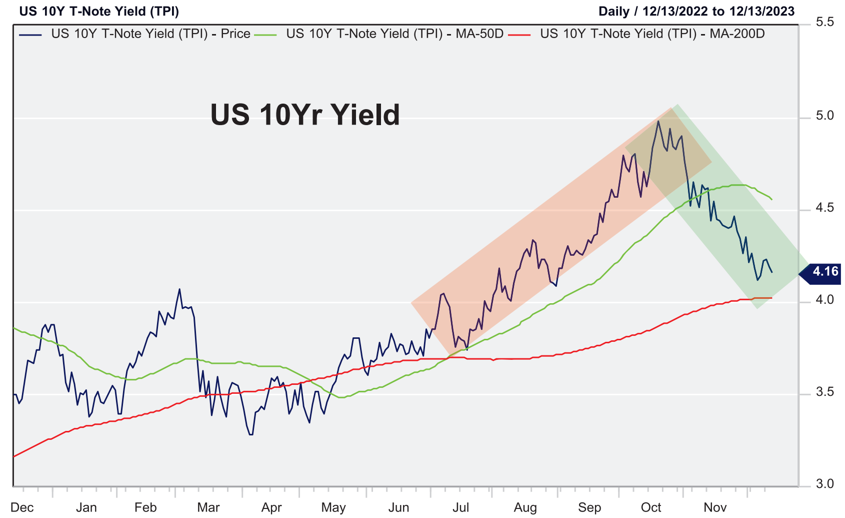
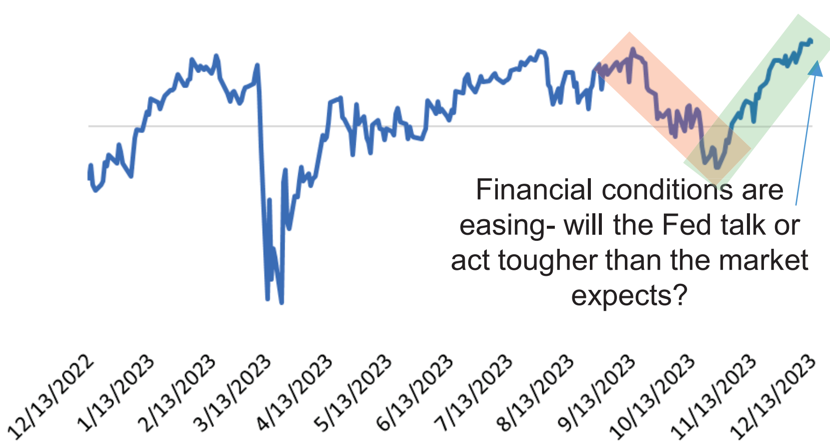
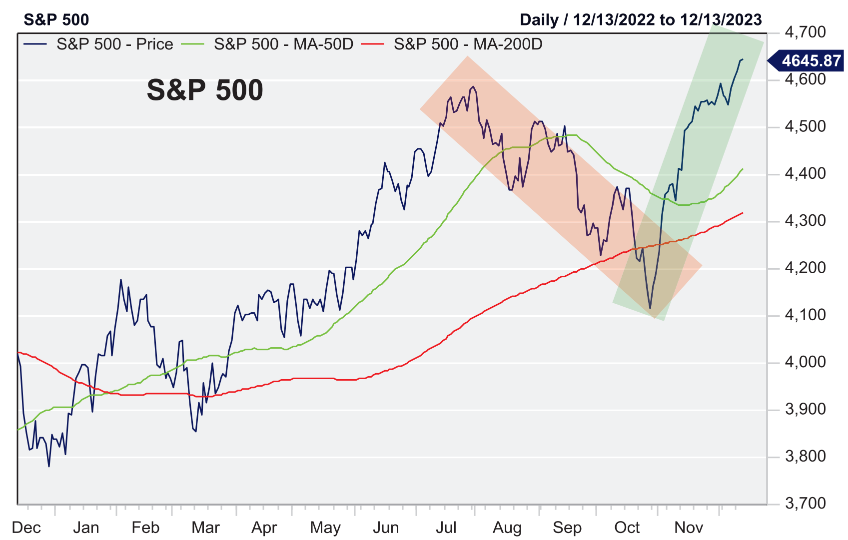


US Financial Conditions

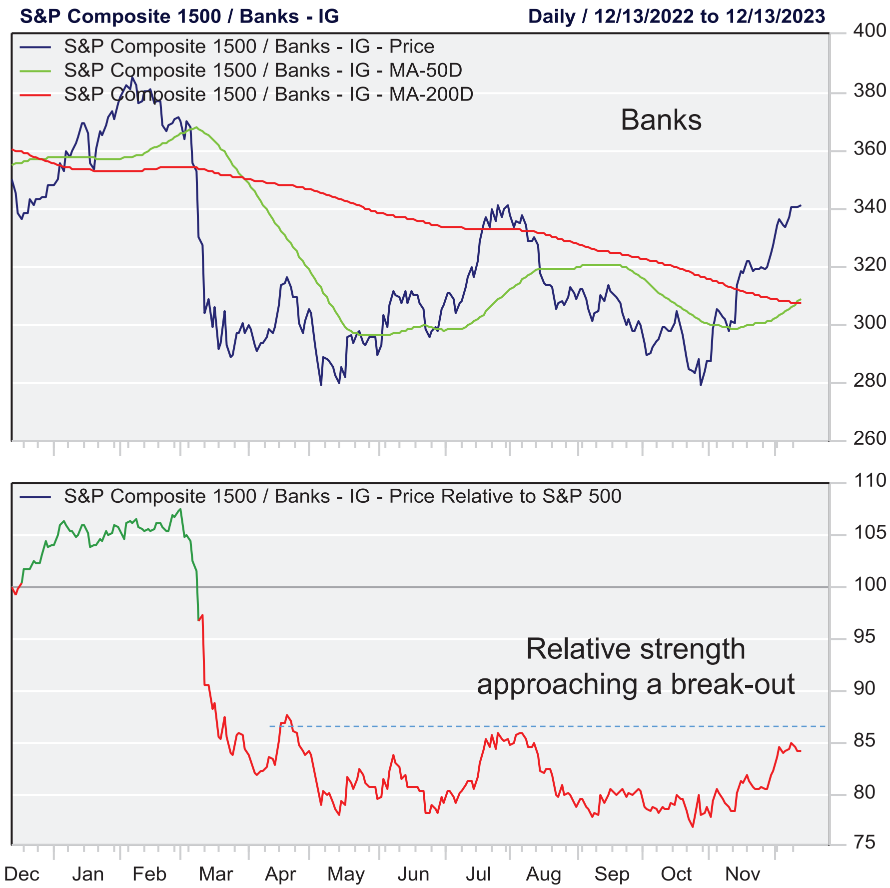




Source: Bloomberg, FactSet

Market Rotation

We note improved performance from many of the lagging areas lately. The banks are approaching a break-out in both absolute and relative price terms. Additionally, real estate relative strength has changed shape recently- attempting to turn up from its consistent downtrend all year. For now it's a start, and we need to see broader participation build sustainable strength over time. Nonetheless, signals like these are encouraging for a market that has been so one-sided all year- and we believe rotation will provide opportunity over the next year.



Source: FactSet (M23-361311)

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