December 25th, 2023

VERED WEALTH
MANAGEMENT (CANADA)
COMPANY LIMITED

Weekly Market Guide

The S&P 500 continued its glide higher over the past week, now up 16% since late October. Fueling the rise has been a dovish shift in Fed messaging, along with lower interest rates (the US 10-year yield is down to 3.9% from a 5% peak).

Fed Chair Powell got the ball rolling on the market's current move with easier commentary on November 1st, and economic data (showing moderating inflation and wage growth) supported the market momentum along the way. **Despite easing financial conditions, there was no pushback in the Fed's more dovish message at last week's FOMC meeting.** In recent days, some Fed officials have tried to pump the brakes on expectations for imminent rate cuts, but the market has looked past it for now. For reference, the bond market is currently pricing in a March rate cut and 6 cuts over the next year.

Sentiment has swung wildly over the past few months, shifting from Fed expectations of "higher for longer" to "steep cuts." This is a byproduct of high economic uncertainty, monthly government data, and volatile Fed messaging. The lagged effects of rapid Fed hikes, high interest rates, and tight bank lending lead us to believe that economic weakness likely transpires. And we wonder if the market has gotten a little ahead of itself on the soft-landing narrative. It's interesting to think about how sentiment has changed over the past 12 months. Coming into 2023, virtually every economist (including the Fed) thought we would be in recession. Exiting 2023, the Fed, many economists, and investors are now discounting a soft-landing. Will there be disappointment?

Technically, recent momentum bodes well for market returns over the next year, as strength often begets strength. We have seen a cluster of breadth thrusts (i.e. broad market strength) since the October lows- with another 7.5x reading in advancers vs. decliners last week. Numerous technical indicators, in conjunction with the average stock in a two-year bear market and coming from cheap valuations, raise the odds that equities will be moving higher over the next year. We are also encouraged by recent signals of rotation beneath the surface. We expect the market's narrow focus on Tech mega-caps in 2023 to broaden out in 2024 and see opportunity within many areas "left behind" this year.

In sum: Market momentum (Santa Claus rally) likely carries equities into year-end. Sentiment and economic growth are potential risks over the coming year that may result in periods of short-term volatility. And the magnitude of recent upside can experience some correction/consolidation. However, remain positive on longer-term trends, and use weakness as opportunity.

There will be no Weekly Market Guide next week (set to resume on January 3rd, 2024). We wish you and your families a very Merry Christmas and Happy Holidays!

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	13.5%	14.7%
S&P 500	24.2%	24.9%
S&P 500 (Equal-Weighted)	11.2%	12.5%
NASDAQ Composite	43.3%	42.3%
Russell 2000	14.7%	16.2%
MSCI All-Cap World	19.2%	19.9%
MSCI Developed Markets	13.1%	13.9%
MSCI Emerging Markets	4.4%	4.3%
NYSE Alerian MLP	17.0%	20.5%
MSCI U.S. REIT	8.9%	9.1%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Information Technology	56.7%	28.9%
Communication Svcs.	53.1%	8.5%
Consumer Discretionary	43.0%	11.0%
S&P 500	***24.2%***	-
Industrials	15.4%	8.8%
Materials	10.2%	2.4%
Financials	9.8%	13.0%
Real Estate	7.5%	2.3%
Health Care	-0.9%	12.5%
Consumer Staples	-2.6%	6.1%
Energy	-3.2%	4.0%
Utilities	-9.8%	2.3%

Source: FactSet

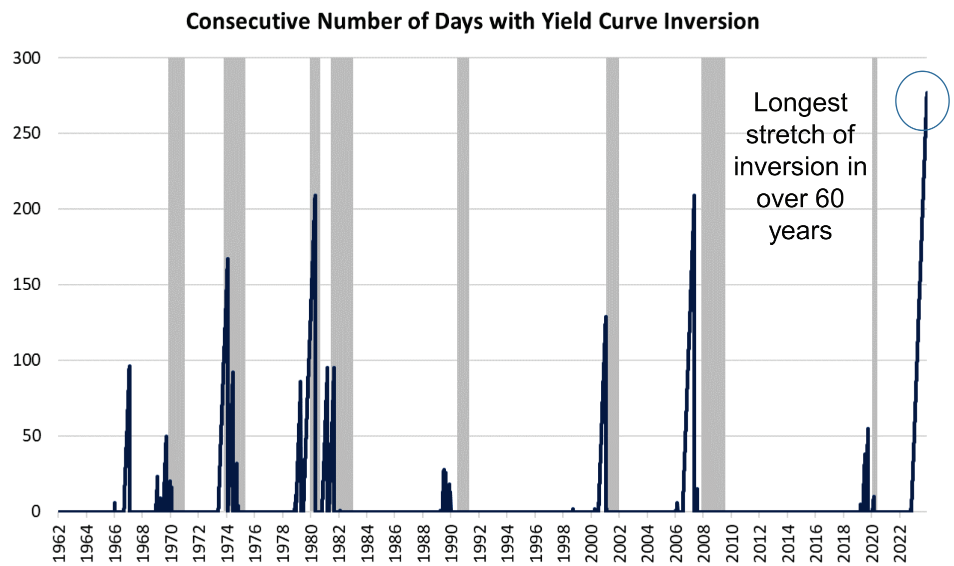
Macro: US

The economy continues to hold up well, supported by the undersupplied labor market and fiscal stimulus. November retail sales surprised to the upside (growing 0.3% m/m), and November PMI Services indicate positive expectations for consumption ahead. We have seen signs of the labor market softening and consumers becoming more value-focused. But as long as people have jobs, they will spend.

Economic strength has led to investor expectations of a soft-landing scenario. It is possible, and the undersupplied labor market is unique at this stage of a tightening cycle. However, the historical precedents of yield curve inversion, length of inversion, and tight bank lending (along with their lagged effects) lead us to believe that economic weakness is still likely to occur.

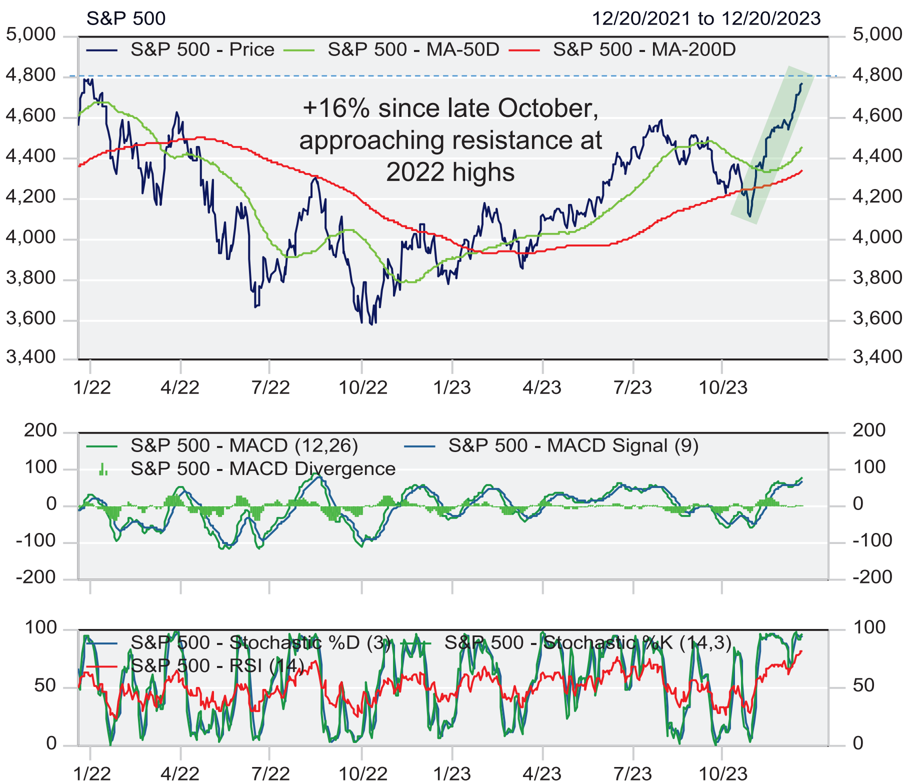
Event	Period	Actual	Consensus	Prior
Continuing Jobless Claims SA	12/02	1,876K	1,881K	1,856K
Export Price Index NSA M/M	NOV	-0.90%	-1.0%	-0.90%
Import Price Index NSA M/M	NOV	-0.40%	-0.90%	-0.60%
Initial Claims SA	12/09	202.0K	223.5K	221.0K
Retail Sales ex-Auto SA M/M	NOV	0.20%	-0.20%	0.0%
Retail Sales SA M/M	NOV	0.30%	-0.20%	-0.20%
Business Inventories SA M/M	OCT	-0.10%	-0.05%	0.20%
Empire State Index SA	DEC	-14.5	1.0	9.1
Capacity Utilization NSA	NOV	78.8%	79.2%	78.7%
Industrial Production SA M/M	NOV	0.20%	0.30%	-0.90%
PMI Composite SA (Preliminary)	DEC	51.0	50.8	50.8
Markit PMI Manufacturing SA (Preliminary)	DEC	48.2	49.3	49.4
Markit PMI Services SA (Preliminary)	DEC	51.3	50.7	50.8
NAHB Housing Market Index SA	DEC	37.0	37.0	34.0
Building Permits SAAR (Preliminary)	NOV	1,460K	1,460K	1,498K
Housing Starts M/M	NOV	14.8%	-0.90%	0.22%
Housing Starts SAAR	NOV	1,560K	1,360K	1,359K
Current Account SA	Q3	-$200.3B	-$202.2B	-$216.8B
Consumer Confidence	DEC	110.7	104.5	101.0
Existing Home Sales SAAR	NOV	3,820K	3,780K	3,790K

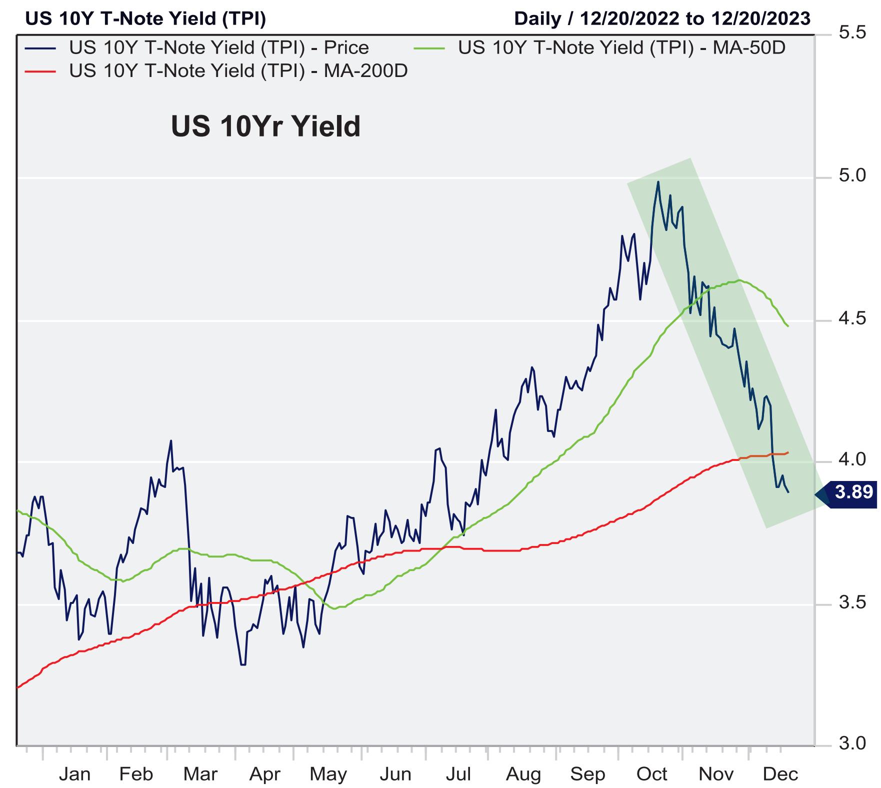
Source: FactSet, Bloomberg



Technical: S&P 500

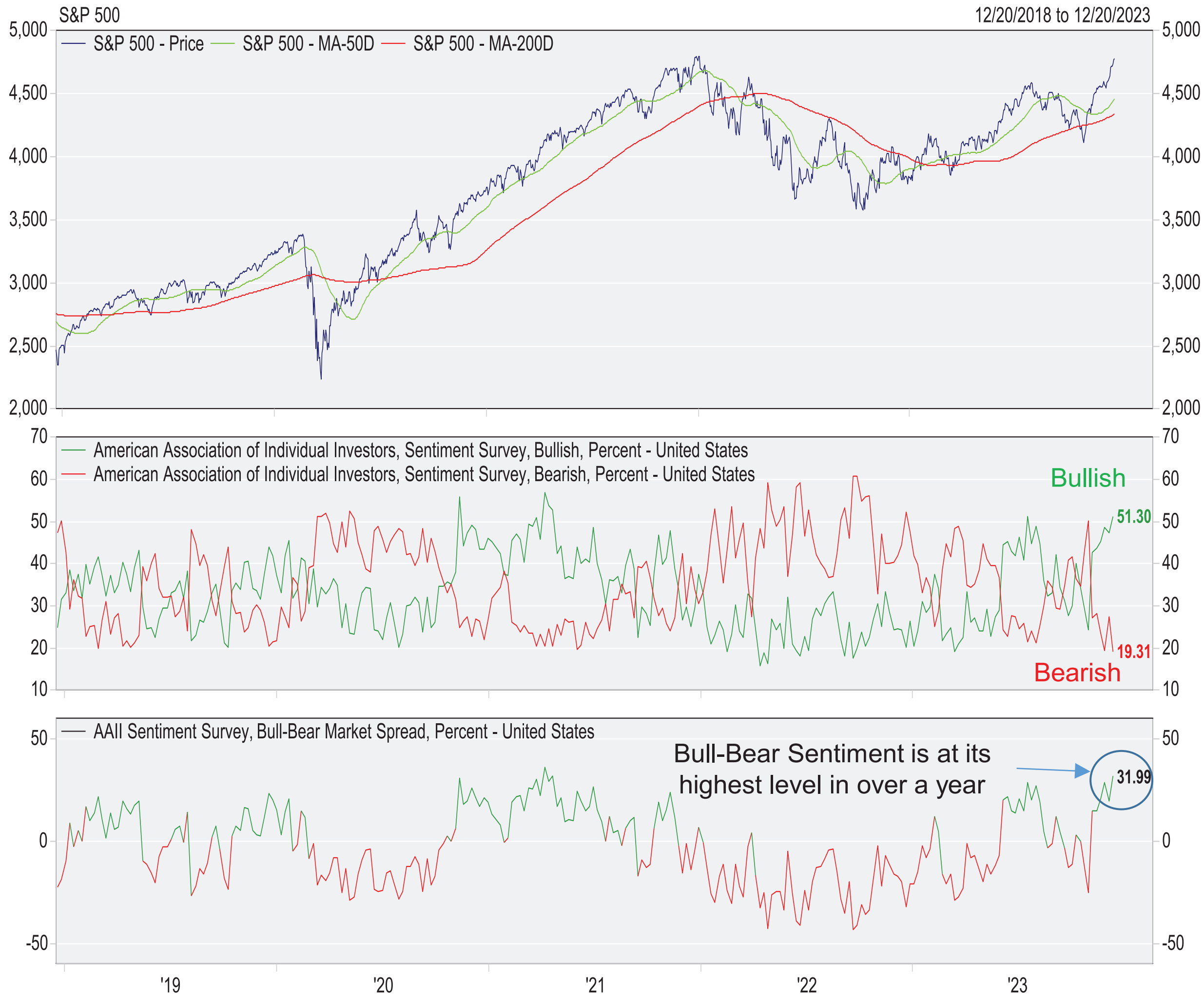
The S&P 500 has climbed 16% since late October, fueled by a dovish shift in Fed messaging, along with lower interest rates (the US 10-year yield is down to 3.9% from a 5% peak). Momentum is likely to carry us into year-end, and we note the “Santa Claus rally” (last 5 trading days of December and first 2 trading days of January) tends to perform better than most periods. The historical average 7-day “Santa Claus rally” is 1.32% with a 79% win rate vs. any other 7-day period’s average of 0.24% with a 58% win rate. Additionally, the degree of recent strength bodes well for returns over the next year- as strength often begets strength. Now, volatility and pullbacks can occur. Sentiment and economic growth are risks that may rear their head at some point. Technically, the S&P 500 is overbought and near prior ~4813 highs which may act as short-term resistance. However, we would view potential weakness as opportunity.





Source: FactSet

Sentiment Bullish Again



Source: FactSet

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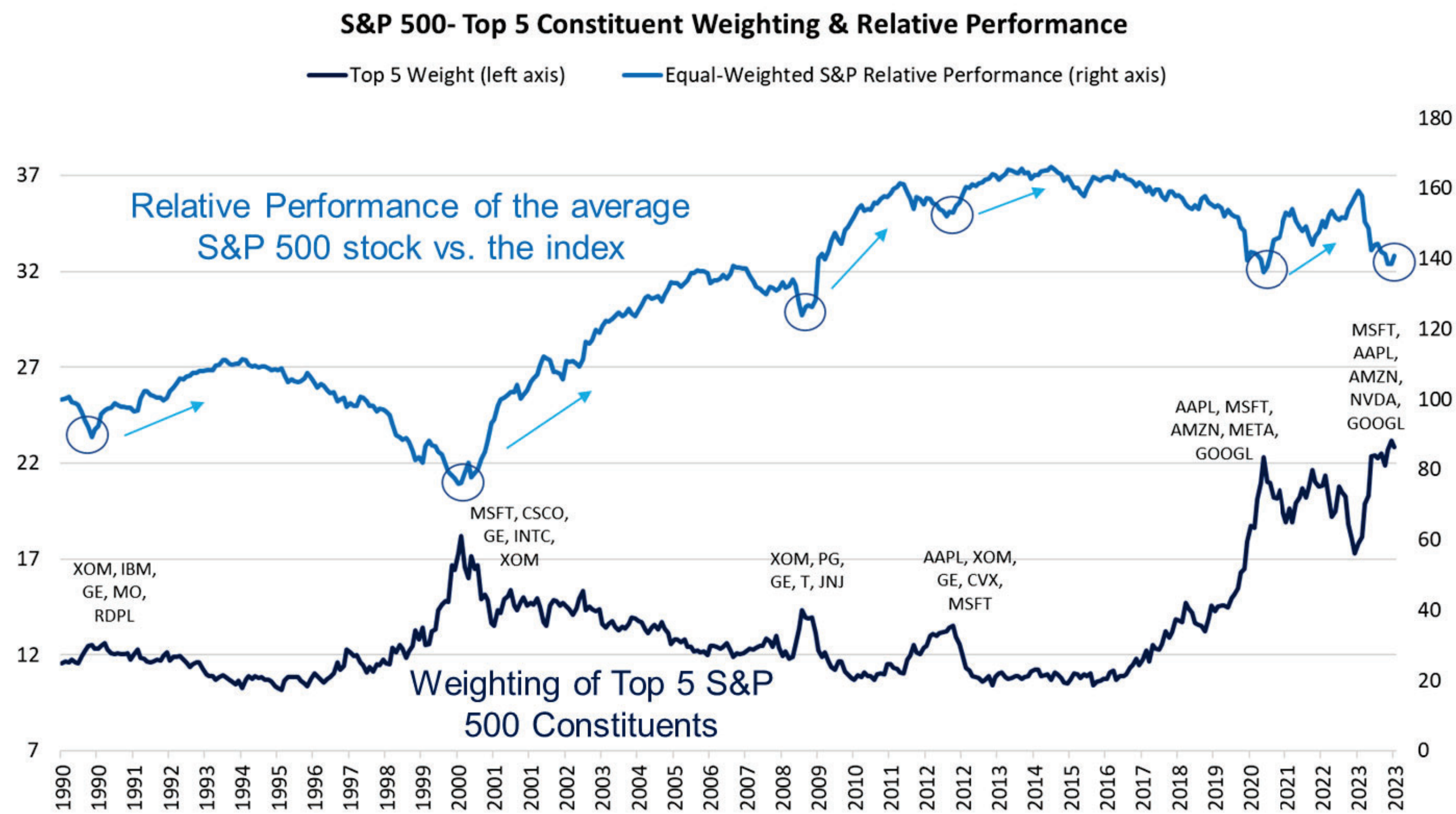
The AAII Bull/Bear Sentiment Survey is at its highest level in over a year. Is the market setting itself up for some disappointment?

Diversification Is Still Important

2023 performance was completely one-dimensional, dominated by the "Magnificent 7" Tech stocks which are up an average of 112% vs. the average S&P 500 stock up 15%. Those 7 stocks drove the bulk of the S&P 500 index's returns this year. As you can see in the chart below, spikes in market concentration have typically presented opportunity for the "average stock" to gain relative performance on the other side. Also, note how leadership can change over time. Everyone is focused on the "here and now," but diversification is still important. We expect market performance to broaden in 2024 and see opportunity within many of the lagging areas. This bodes well for active management.



Source: Bloomberg (M23-367716)

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