January 8th, 2023

VERED WEALTH MANAGEMENT (CANADA) COMPANY LIMITED

Weekly Market Guide

The S&P 500's 17% rally into year-end finished just a whisker shy of all-time highs (4796 on closing basis). Encouragingly, market strength from the October lows has consisted of broader participation beneath the surface. For example, since late October, lagging areas such as the Banks, Real Estate, equal-weighted Consumer Discretionary, and Small Caps are up 30%, 23%, 20%, and 20% respectively. This was a notable shift from the narrow sleeve of Tech stocks dominating index performance throughout the vast majority of 2023- and we believe this rotation provides opportunity in 2024. Tech can still perform well, and there is no denying the group's earnings strength and long runway of AI potential. However, we believe 2023's one-dimensional market is likely to broaden out. For more on the market concentration/rotation theme, please see our recently published note- Diversification Is Still Important.

We begin 2024 from a position of strength in the market trend. 91% of stocks are above their 50-day moving average and 77% are above their 200 DMA. Strength often begets strength, and the underlying tone of market momentum bodes well for positive returns over the coming year. Equal-weighted Consumer Discretionary vs. Consumer Staples has been a good indicator on the character of the market over the past two years- and is positive. The semiconductors (often a leading indicator given their widespread economic uses) recently broke out to new highs. Additionally, credit is behaving (CDS spreads are at their narrowest level in over 1.5 years).

Now, there can certainly be some mean-reversion/consolidation in the short-term as the market rally leaves many stocks extended. We note slight counter-trend moves in bond yields, US dollar, and equities over the first two days of 2024. **However, we recommend using weakness as opportunity.**

The big questions for 2024 remain largely the same as 2023 (i.e. path of inflation, economic health, and Fed policy), though we believe there has been some improved clarity. We have experienced six consecutive months of inflation moving toward the Fed's 2-2.5% target, and the lagged effects of monetary tightening indicate continued inflation moderation. In fact, 3-month annualized core PCE is already at 2.2%. As 2024 progresses, we believe focus is likely to shift toward the economy- and how much weakness comes from higher interest rates. We expect mild weakness.

Of course, inflation and economic health will have a direct influence on Fed policy, and we do believe the highest odds are rate cuts in 2024. This is likely to support lower bond yields and higher equity valuations over the coming year. **Though we do wonder if sentiment has moved a little ahead of schedule (once again)**- i.e. the market is currently pricing in March as the first of six cuts in 2024. This is a potential risk, as sentiment has shown an ability to swing wildly- a byproduct of high economic uncertainty, monthly government data (that comes with revisions), and Fed messaging.

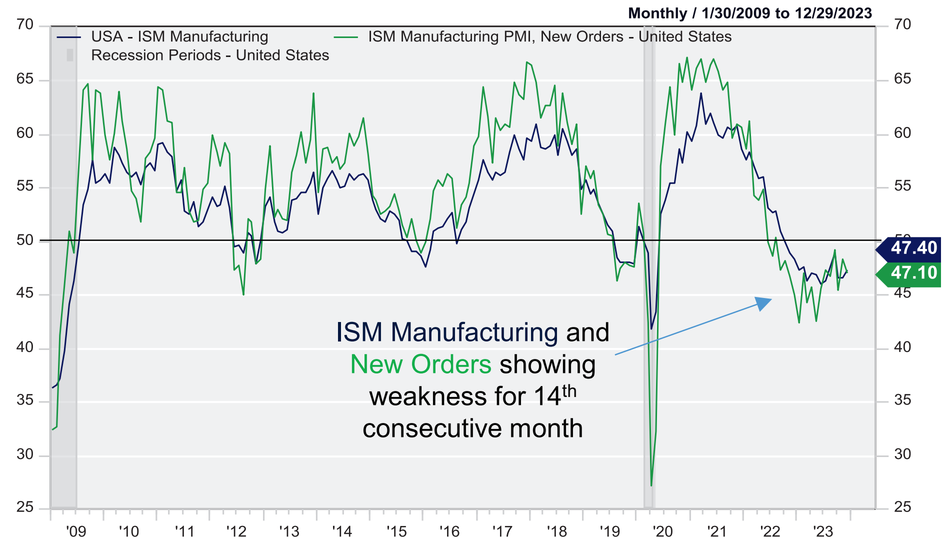
Bottom line: It's interesting to think about how sentiment has changed over the past 12 months. Entering 2023, virtually every economist (including the Fed) thought we would be in recession. Entering 2024, the Fed, many economists, and investors are now discounting a soft-landing (and steep rate cuts). Elevated sentiment and economic weakness are potential risks over the coming year that may result in periods of short-term volatility. However, we remain positive on overall trends and view weakness as opportunity (particularly in the "left behind" areas as rotation builds).

We wish you a healthy and prosperous New Year!

Macro: US

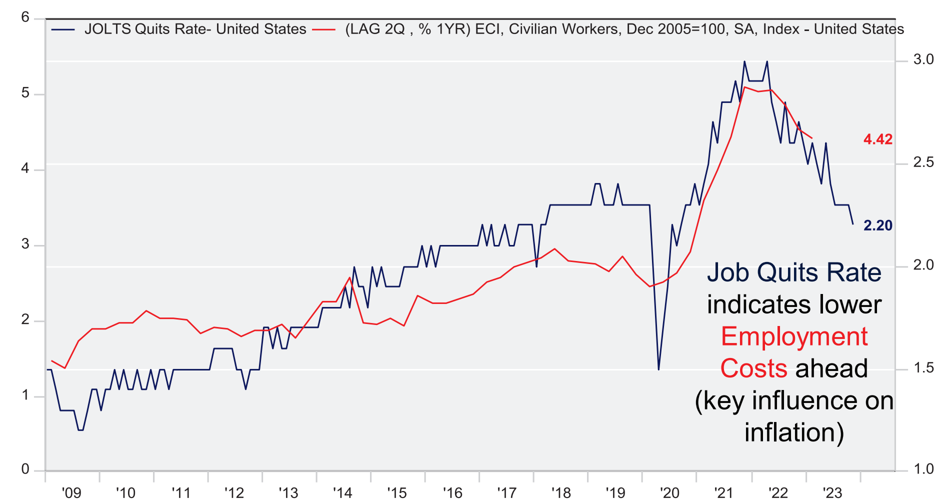
This week's economic data was more of the same. Manufacturing remains weak, as ISM Manufacturing has been in contractionary territory for 14 consecutive months. New orders are off their lows but have yet to show much improvement. Additionally, Job Openings continued to decrease as employment normalizes.

We still view the labor market as undersupplied, which is likely to support employment and economic activity for now. The declining Job Quits Rate also indicates lower employment costs ahead (a key influence on inflation). This is what the soft-landing narrative hinges on- that the Fed will be able to bring down inflation without job and economic destruction. The lagged effects of monetary tightening still provide some pause on economic conditions going forward; but for now at least, the economy and inflation trends are supportive of equity markets.



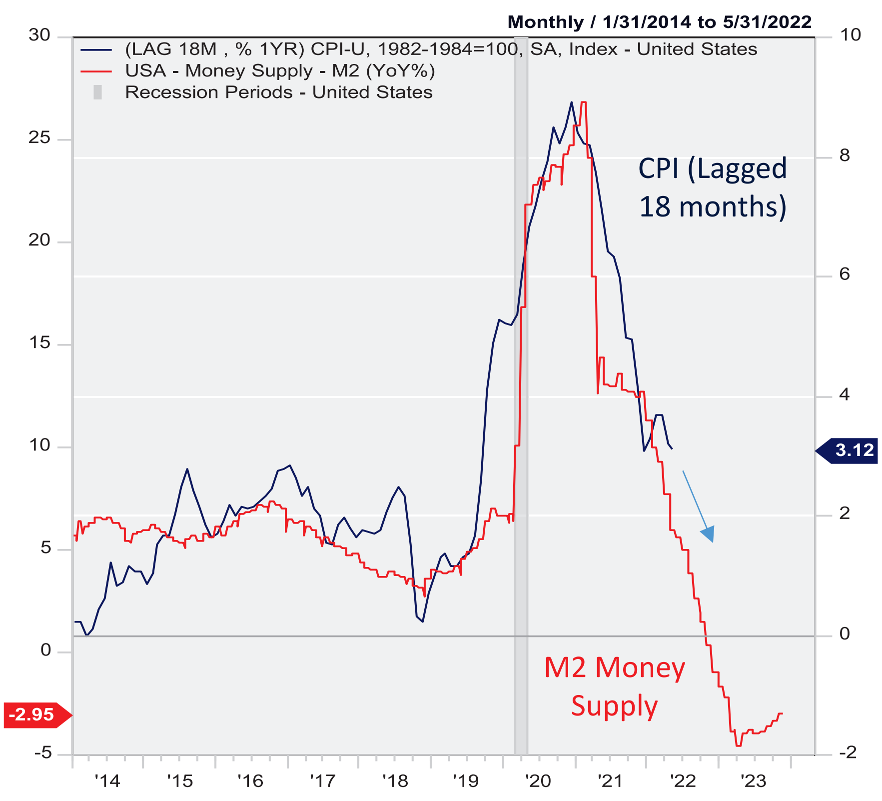
Event	Period	Actual	Consensus	Prior
Chicago Fed National Activity Index	NOV	0.03	-0.42	-0.66
S&P/Case-Shiller comp.20 HPI M/M	OCT	0.60%	0.65%	0.67%
S&P/Case-Shiller comp.20 HPI Y/Y	OCT	4.9%	5.1%	3.9%
Dallas Fed Index	DEC	-9.3	-16.0	-19.9
Richmond Fed Index	DEC	-11.0	-4.0	-5.0
Continuing Jobless Claims SA	12/16	1,875K	1,864K	1,861K
Initial Claims SA	12/23	218.0K	211.5K	206.0K
Wholesale Inventories SA M/M (Preliminary)	NOV	-0.20%	-0.20%	-0.30%
Pending Home Sales Index SAAR	NOV	71.6	72.0	71.6
Pending Home Sales M/M	NOV	0.0%	0.75%	-1.2%
Chicago PMI SA	DEC	46.9	50.0	55.8
Markit PMI Manufacturing SA (Final)	DEC	47.9	48.2	48.2
Construction Spending SA M/M	NOV	0.40%	0.45%	1.2%
ISM Manufacturing SA	DEC	47.4	47.2	46.7
JOLTS Job Openings	NOV	8,790K	8,760K	8,852K

Source: FactSet

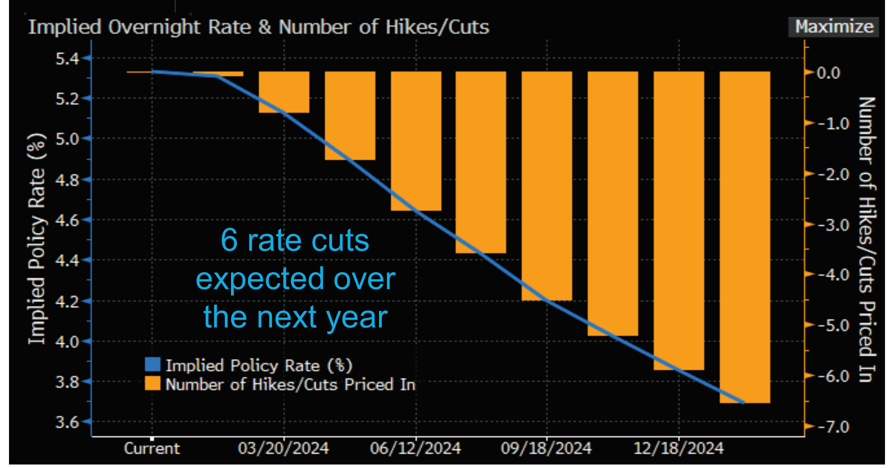


Fed Expectations

Monetary policy has significant effects (with a lag) on inflation and the economy over time. Just as enormous monetary stimulus in the Covid shutdown contributed to very high inflation, rapid monetary tightening since early 2022 has contributed to a moderation in inflation. We have now experienced six consecutive months of core CPI moving toward the Fed's 2-2.5% target. And as you can see in the bottom left chart, leading indicators on inflation (such as money supply) provide some comfort that inflation should continue lower. Of course, the Fed wants to make sure that inflation comes down and stays there- avoiding potential stop-and-go policy. So the incoming data will remain very consequential to Fed actions. And with the market now pricing in a cut as early as March and six cuts over the next year (along with a soft-landing economic scenario), we wonder if the market is set up for some disappointment.



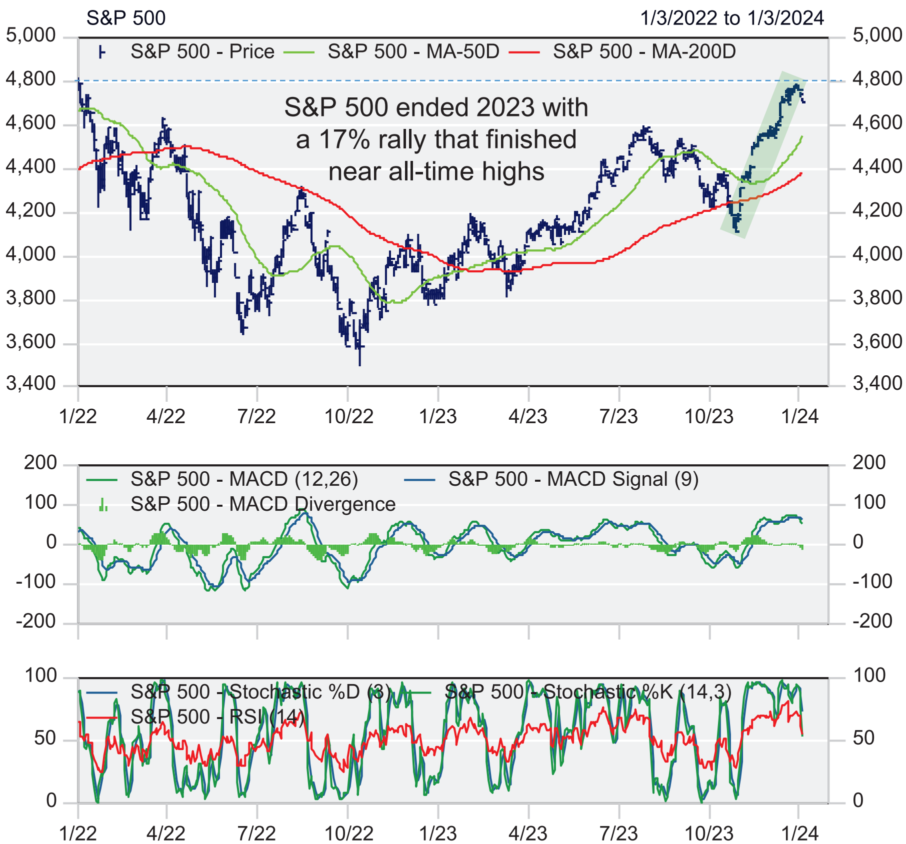
Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate
01/31/2024	-0.085	-8.5%	-0.021	5.307
03/20/2024	-0.821	-73.6%	-0.205	5.123
05/01/2024	-1.755	-93.4%	-0.439	4.890
06/12/2024	-2.742	-98.7%	-0.685	4.643
07/31/2024	-3.585	-84.3%	-0.896	4.432
09/18/2024	-4.520	-93.5%	-1.130	4.199
11/07/2024	-5.222	-70.2%	-1.306	4.023
12/18/2024	-5.905	-68.3%	-1.476	3.853
01/29/2025	-6.555	-65.0%	-1.639	3.690



Source: FactSet, Bloomberg

Technical: S&P 500

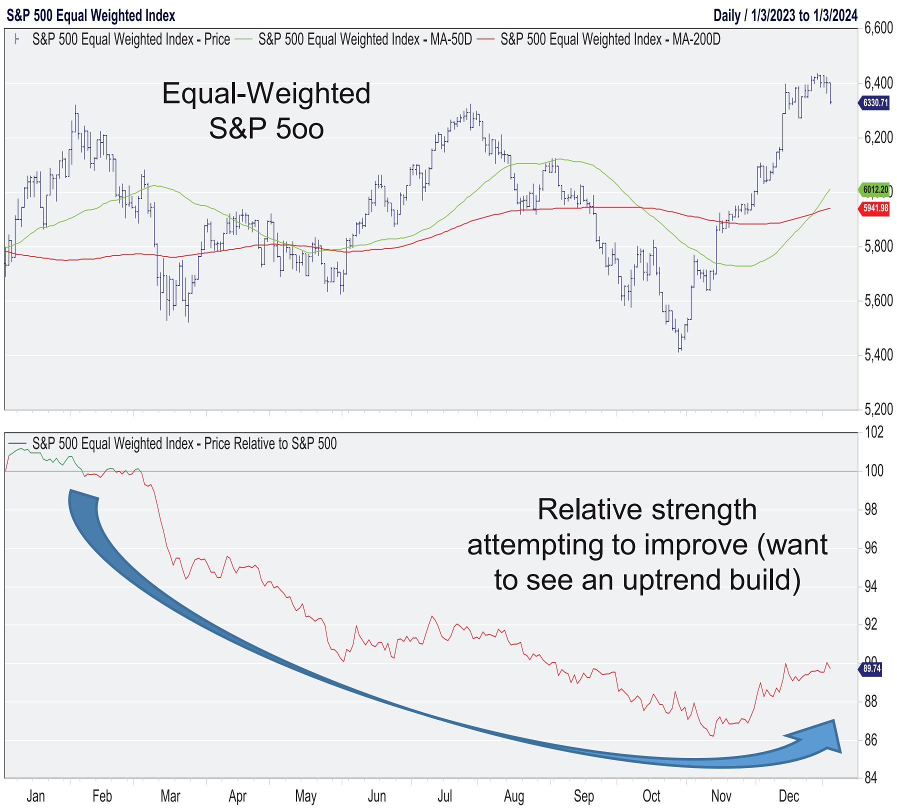
The S&P 500's 17% rally into year-end finished just a whisker shy of all-time highs (4796), which is the first level of resistance to monitor. The market rally leaves many stocks extended, and we may be due some mean-reversion/consolidation in the short-term. We note slight counter-trend moves in bond yields, US dollar, and equities over the first two days of 2024. The S&P 500 has pulled in toward its 21-day moving average (4693) which will be initial support to monitor, followed by ~4600. Overall, we remain positive on intermediate-term trends and view weakness as opportunity.

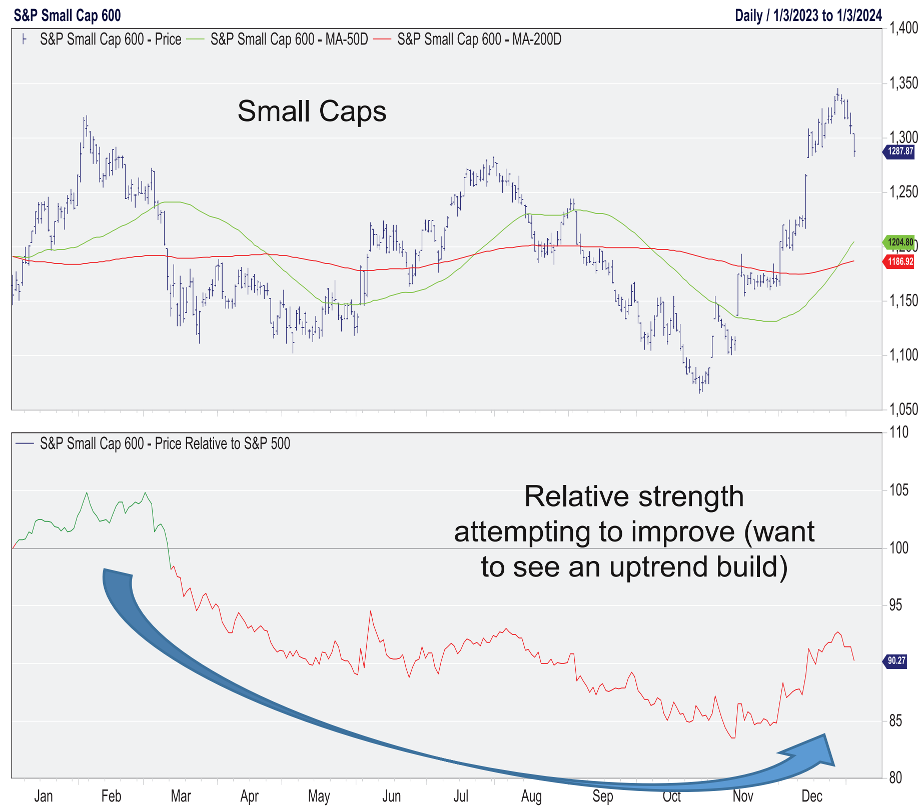


Source: FactSet

Market Rotation

Encouragingly, market strength from the October lows has consisted of broader participation beneath the surface. For example, since late October, lagging areas such as the Banks, Real Estate, equal-weighted Consumer Discretionary, and Small Caps are up 30%, 23%, 20%, and 20% respectively. This was a notable shift from the narrow sleeve of Tech stocks dominating index performance throughout the vast majority of 2023- and we believe this rotation provides opportunity in 2024. Tech can still perform well, and there is no denying the group's earnings strength and long runway of AI potential. However, we believe 2023's one-dimensional market is likely to broaden out. For more on the market concentration/rotation theme, please see our recently published note- Diversification Is Still Important.





Source: FactSet (M23-376634)

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