January 22th, 2023

VERED WEALTH
MANAGEMENT (CANADA)
COMPANY LIMITED

Weekly Market Guide

Equities are in "pause mode" to begin the year, which we view as normal digestion following the sharp 2-month rally into year-end 2023. Technically, this makes sense as the S&P 500 hit prior highs from January 2022 and the speed of the run-up left many areas overbought in the short-term. We also have a market trying to weigh the prospects of a soft-landing economic scenario and easier Fed policy ahead. Investor sentiment is bullish to start the year- with the consensus expecting a March rate cut (and 6 cuts over the next year) along with a soft-landing. This is likely an overshoot in our view, and that sentiment has consolidated a touch over the past two weeks.

Multiple policymakers at global central banks have pushed back on market expectations for imminent and steep rate cuts this week. They do not want the market to front-run their intentions too far, which runs the risk of unwinding some of the progress being made on inflation. They also want to avoid potential "stop-and-go" policy that could result from cutting rates too quickly. Over the course of 2024, we do believe that the Fed will likely be cutting rates as inflation comes down and focus shifts to supporting the economy (and employment). However, we also believe that markets are correct to walk-back some of their optimism lately, as **the Fed is likely to move slower than the market expects.**

Aside from monitoring the economic data flow, Q4 earnings season has begun- providing investors with a fresh look at company fundamentals and expected trends. The message from the banks is that the economic backdrop remains challenging, echoing weak guidance from several global companies (i.e. FedEx and Nike) in the lead up to earnings season. S&P 500 Q4 earnings estimates have drifted 8% lower over the past few months, but **the early sense from price reactions is that the bar may be high for stocks following their late 2023 run-up.** 22 S&P 500 companies report this week, followed by 65 next week and 82 the week thereafter (including Big Tech).

As we go through earnings season, not only will we be paying close attention to company commentary- but also to price action, particularly as it pertains to potential market rotation. We would like to see the late 2023 improvement from many "left behind" areas develop into sustainable upside as the market broadens out. For example, the "average" S&P 500 stock, small caps, banks, real estate, consumer discretionary stocks, etc. are digesting some of their recent strength- good buying opportunity or still range-bound? Given the degree of their underperformance over the past year, inexpensive valuations, and initial signs of technical improvement, we would use the recent consolidation as opportunity to "nibble" in favored areas. Conviction on broader market participation will build if these indexes are able to hold above their moving averages in price and above recent lows in relative strength.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	-4.6%	1.5%
S&P 500	-0.1%	19.2%
S&P 500 (Equal-Weighted)	-1.8%	3.9%
NASDAQ Composite	-0.4%	34.9%
Russell 2000	-4.9%	2.1%
MSCI All-Cap World	-1.1%	12.7%
MSCI Developed Markets	-1.9%	5.4%
MSCI Emerging Markets	-4.3%	-4.9%
NYSE Alerian MLP	1.4%	12.6%
MSCI U.S. REIT	-1.1%	1.8%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Health Care	2.4%	12.9%
Communication Svcs.	1.8%	8.7%
Information Technology	1.0%	29.2%
Consumer Staples	0.7%	6.2%
S&P 500	***-0.1%***	-
Financials	-0.8%	12.9%
Utilities	-1.1%	2.3%
Real Estate	-1.5%	2.3%
Consumer Discretionary	-2.2%	10.6%
Industrials	-2.6%	8.6%
Materials	-3.6%	2.3%
Energy	-3.7%	3.7%

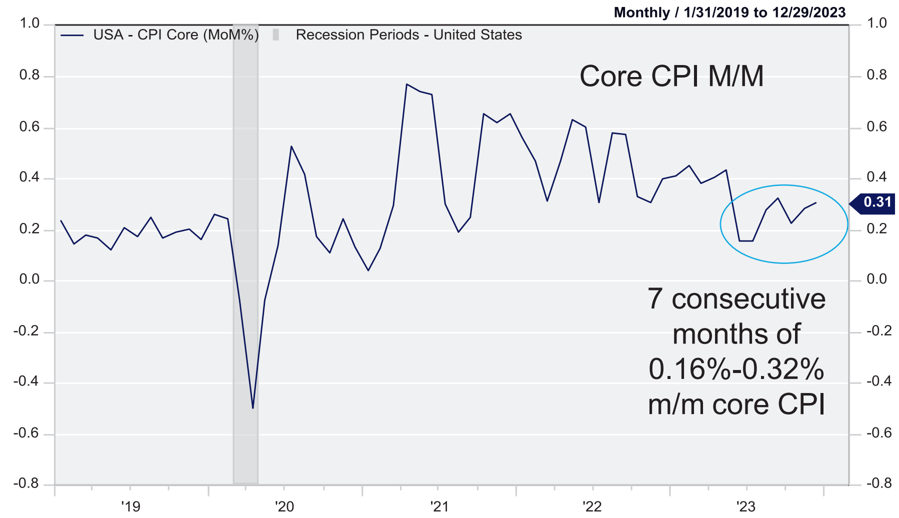
Source: FactSet

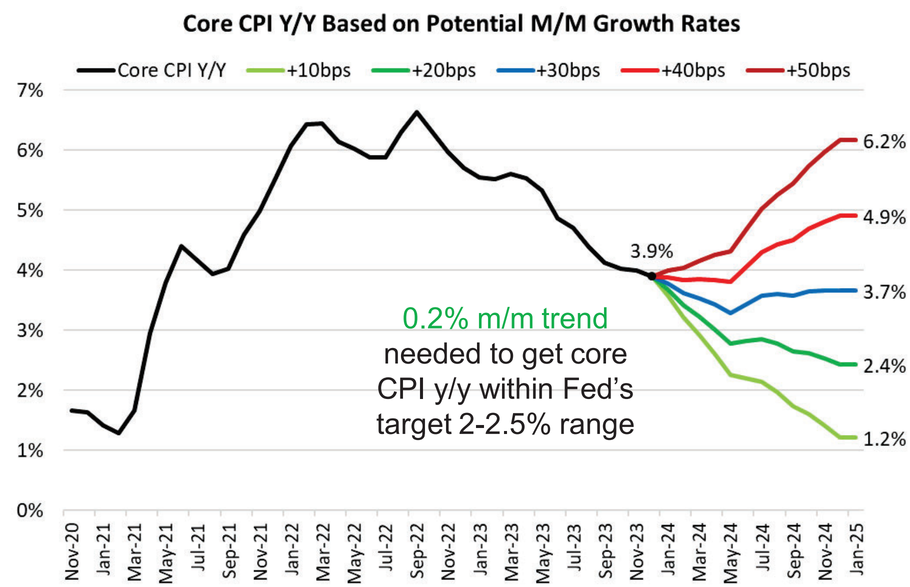
Macro: US

December CPI came out a touch higher than desired at 0.3% m/m for headline and core- but is unlikely to alter the status quo. Inflation is on a better path, and we have now seen seven consecutive months of core CPI in a “normal” m/m trend. Additionally, leading indicators (such as December PPI) suggest inflation should continue to move lower. This provides some comfort for the Fed and investors regarding inflation, and we believe focus will shift to the economy in 2024. For now, the economy is showing resilience with December retail sales well ahead of expectations and January housing data bouncing (in conjunction with the recent move lower in rates)- supporting the soft-landing narrative. However, we cannot completely ignore the numerous traditional leading economic indicators still flashing caution.

Event	Period	Actual	Consensus	Prior
CPI ex-Food & Energy SA M/M	DEC	0.30%	0.30%	0.30%
CPI ex-Food & Energy NSA Y/Y	DEC	3.9%	3.8%	4.0%
Continuing Jobless Claims SA	12/30	1,834K	1,878K	1,868K
CPI SA M/M	DEC	0.30%	0.20%	0.10%
CPI NSA Y/Y	DEC	3.4%	3.2%	3.1%
Hourly Earnings SA M/M (Final)	DEC	0.40%	-	0.40%
Hourly Earnings Y/Y (Final)	DEC	4.1%	-	4.1%
Initial Claims SA	01/06	202.0K	205.0K	203.0K
Treasury Budget NSA	DEC	-$129.4B	-$52.4B	-$314.0B
PPI ex-Food & Energy SA M/M	DEC	0.0%	0.20%	0.0%
PPI ex-Food & Energy NSA Y/Y	DEC	1.8%	2.0%	2.0%
PPI SA M/M	DEC	-0.10%	0.20%	-0.10%
PPI NSA Y/Y	DEC	0.98%	1.4%	0.78%
Export Price Index NSA M/M	DEC	-0.90%	-0.60%	-0.90%
Import Price Index NSA M/M	DEC	0.0%	-0.40%	-0.50%
Retail sales ControlGroup SA M/M	DEC	0.76%	0.30%	0.47%
Retail sales Ex AutoFuel SA M/M	DEC	0.60%	0.20%	0.64%
Retail Sales ex-Auto SA M/M	DEC	0.40%	0.20%	0.24%
Retail Sales SA M/M	DEC	0.60%	0.40%	0.35%
Capacity Utilization NSA	DEC	78.6%	78.7%	78.6%
Industrial Production SA M/M	DEC	0.10%	-0.10%	0.0%
Manufacturing Production M/M	DEC	0.07%	-0.05%	0.25%
Business Inventories SA M/M	NOV	-0.10%	-0.10%	-0.10%
NAHB Housing Market Index SA	JAN	44.0	38.0	37.0

Source: FactSet





Q4 Earnings Season

Q4 earnings season has begun- providing investors with a fresh look at company fundamentals and expected trends. The message from the banks is that the economic backdrop remains challenging, echoing weak guidance from several global companies (i.e. FedEx and Nike) in the lead up to earnings season.

S&P 500 Q4 earnings estimates have drifted 8% lower over the past few months and reflect a -9.4% q/q earnings contraction. The only sector expected to show positive sequential earnings growth is Technology.

Despite the lower bar for earnings to beat estimates, the early sense from price reactions is that the bar may be high for stocks following their late 2023 run-up. For example, 72% of the reporters have moved lower on their announcement by an average of -2.1%.

As we go through earnings season, not only will we be paying close attention to company commentary- but also to price action, particularly as it pertains to potential market rotation. We would like to see the late 2023 improvement from many "left behind" areas develop into sustainable upside as the market broadens out.

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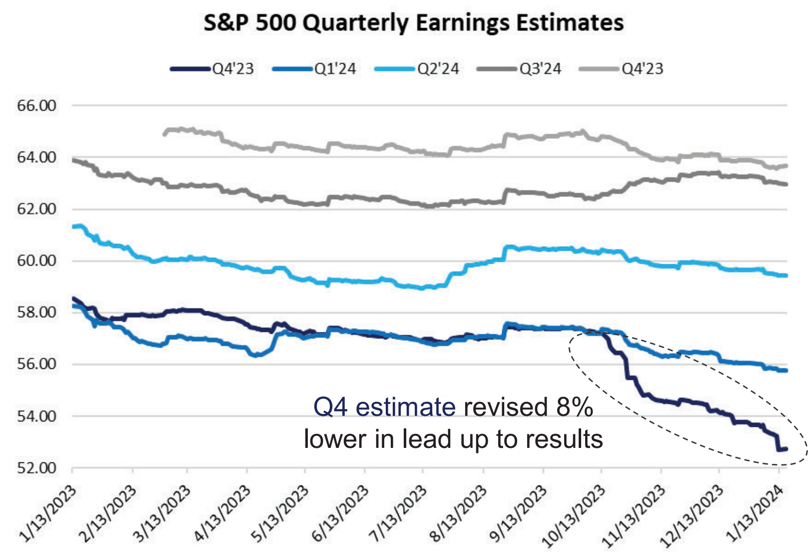


	% Q4 Est. EPS Growth		% EPS	# of Companies Reporting			Est. Chg Since 12/31/23		
S&P 500 Sector	Y/Y	Q/Q	Surprise	Positive	Inline	Negative	Q4'23	2024	2025
S&P 500	**0.2**	**-9.4**	**-7.1**	**24**	**3**	**7**	**-1.8%**	**-0.3%**	**-0.1%**
Information Technology	15.7	10.0	3.6	5	0	0	0.0%	0.1%	0.1%
Real Estate	0.5	-1.8	-	-	-	-	-0.1%	0.1%	0.1%
Communication Services	46.0	-3.0	-	-	-	-	-0.4%	-0.1%	-0.2%
Industrials	-3.1	-6.0	1.6	2	1	1	0.0%	0.0%	-0.3%
Consumer Staples	0.0	-7.5	5.6	6	0	0	0.2%	-0.2%	-0.1%
Health Care	-20.3	-9.5	-2.4	1	0	1	0.2%	-0.1%	-0.1%
Energy	-29.2	-13.7	-	-	-	-	-2.9%	-5.3%	-2.5%
Materials	-22.4	-17.2	-	-	-	-	-2.4%	0.5%	0.9%
Utilities	30.6	-22.3	-	-	-	-	-0.3%	-0.2%	0.1%
Financials	-13.1	-24.2	-19.0	4	1	5	-9.4%	0.4%	0.2%
Consumer Discretionary	23.4	-25.7	8.9	6	1	0	0.1%	0.2%	0.7%

Source: FactSet

Technical: S&P 500

Source: FactSet

Equities are in "pause mode" to begin the year, which we view as normal digestion following the sharp 2-month 17% rally into year-end 2023.

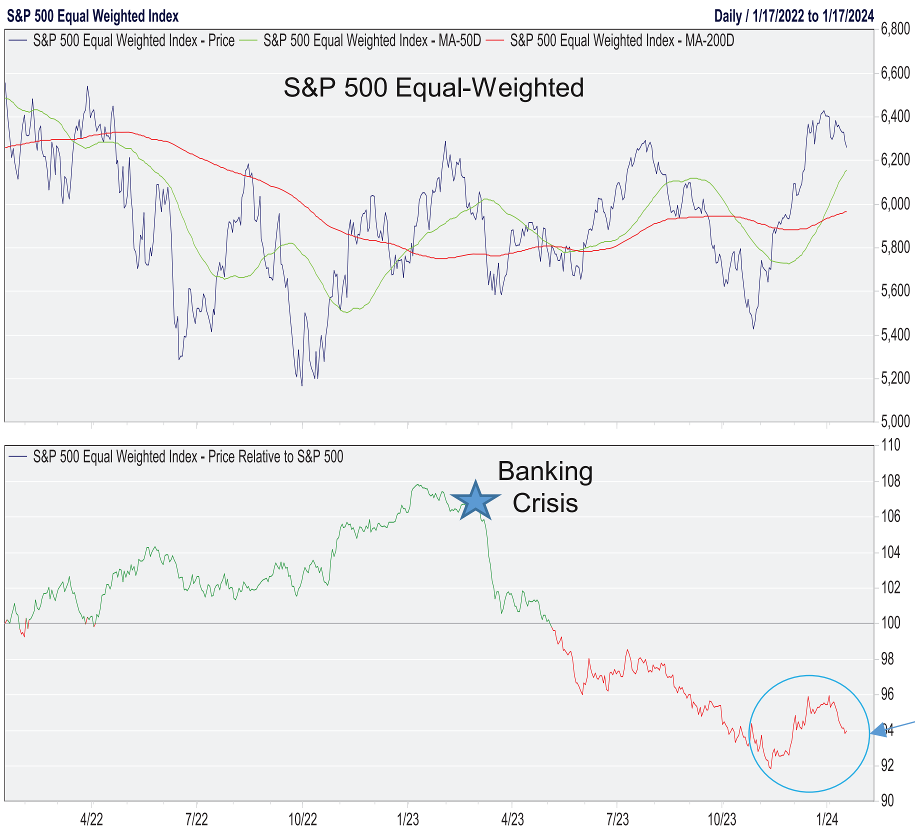
Technically, the pause makes sense as the S&P 500 hit prior highs from January 2022 and the speed of the run-up left many areas overbought in the short-term.

Investors should be aware of a bearish divergence we are seeing in prices vs. RSI. Prices recently tested December highs, while RSI remained firmly in neutral territory. There isn't anything overly bearish about divergences like this, but it could be signaling the market has more work to do to digest November/December gains before resuming its advance. This view is consistent with investors walking-back some of their enthusiasm on a soft-landing and Fed rate cuts.

We will be monitoring ~4637-4600 for potential support. This area lines up with the 23% Fibonacci retracement level from October lows, along with the 50-day moving average and July highs. On the flip side, initial resistance can be found at recent highs (~4810).

Lagging Areas- Attempting To Turn Up

Market breadth has been very narrow since the March banking crisis last year. As you can see, relative performance for the S&P equal-weighted index and small caps have trended downward since then. As optimism for a soft-landing and easier monetary policy built over the past couple of months, relative strength has attempted to improve. However, a lot of work is needed to build sustainable outperformance. Both indexes have been largely range-bound for the past year. Given the degree of underperformance, inexpensive valuations, and initial signs of technical improvement, we would use the recent consolidation phase as opportunity to “nibble” in favored areas. Conviction on broader market participation will build if these indexes are able to hold above their moving averages in price and above recent lows in relative strength.



Source: FactSet

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