January 29th, 2023

VERED WEALTH MANAGEMENT (CANADA) COMPANY LIMITED

Weekly Market Guide

After pausing near January 2022 levels for the past several weeks, the S&P 500 has now broken out to new all-time highs. This is a bullish signal technically and extends the upward momentum in place since late October. Historically, new all-time highs (following stretches longer than a year) have seen above average 12-month returns and positive hit rates. For example, we count 12 such occurrences since 1950- the S&P 500 was higher 12-months later 92% of the time and up an average 13%.

The underpinnings of the current market rally are reasonable- easier Fed expectations, lower interest rates, and supportive economic data. We agree with this base line, and believe equities can climb higher over the next 12 months as the Fed likely cuts rates, bond yields trend lower, and potential economic weakness is mild in nature. This will allow valuation multiples to expand (from low levels for the "average stock") and offset earnings softness, as investors discount an eventual economic recovery.

However, we recommend refraining from unbridled enthusiasm. It is normal to see some digestion of market strength after pushing to new highs. Moreover, the factors supporting the market's current climb have shown an ability to be volatile over the past several months. Investor sentiment is now bullish with increased expectations of an economic soft-landing and steep Fed cuts to come. But, the Fed may be slower to cut rates than the market expects (in a soft-landing scenario)-as they want to avoid potential "stop-and-go" policy that may be the result of cutting too quickly. Additionally, economic data has been supportive of the soft-landing narrative- inflation is coming down without job destruction so far. But, it is also tough to completely ignore traditional leading economic indicators (such as rapid Fed tightening, the deeply inverted yield curve, and tight lending standards) that still signal caution.

There are plenty of items that could disrupt the path of inflation, economic activity, Fed messaging, and market mood over the coming months. An easy, glide-path higher is unrealistic in our view. **Therefore, we recommend a positive but pragmatic approach.** Pick your points to accumulate exposure within a long-term perspective, and view pullbacks as opportunity.

Beneath the surface- As Q4 earnings season progresses, we will be listening to company commentary on fundamental trends and watching price reactions for signs of broader market participation. Technology dominated performance over the past year (fueled by relative earnings strength) and has the upper-hand to begin 2024 so far. Meanwhile, the equal-weighted S&P 500 has seen its price trend improve, but appears set to test its lows on a relative basis.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	-2.3%	4.1%
S&P 500	2.0%	21.0%
S&P 500 (Equal-Weighted)	-0.7%	4.8%
NASDAQ Composite	2.8%	35.7%
Russell 2000	-2.5%	4.5%
MSCI All-Cap World	0.1%	13.2%
MSCI Developed Markets	-2.2%	4.3%
MSCI Emerging Markets	-5.3%	-6.6%
NYSE Alerian MLP	1.7%	11.6%
MSCI U.S. REIT	-2.6%	-0.7%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Information Technology	5.8%	29.9%
Communication Svcs.	5.3%	8.9%
Health Care	2.6%	12.7%
S&P 500	***2.0%***	-
Financials	1.3%	12.9%
Consumer Staples	0.7%	6.1%
Industrials	-0.6%	8.6%
Consumer Discretionary	-2.1%	10.4%
Materials	-3.3%	2.3%
Real Estate	-3.3%	2.3%
Energy	-3.7%	3.7%
Utilities	-4.0%	2.2%

Source: FactSet

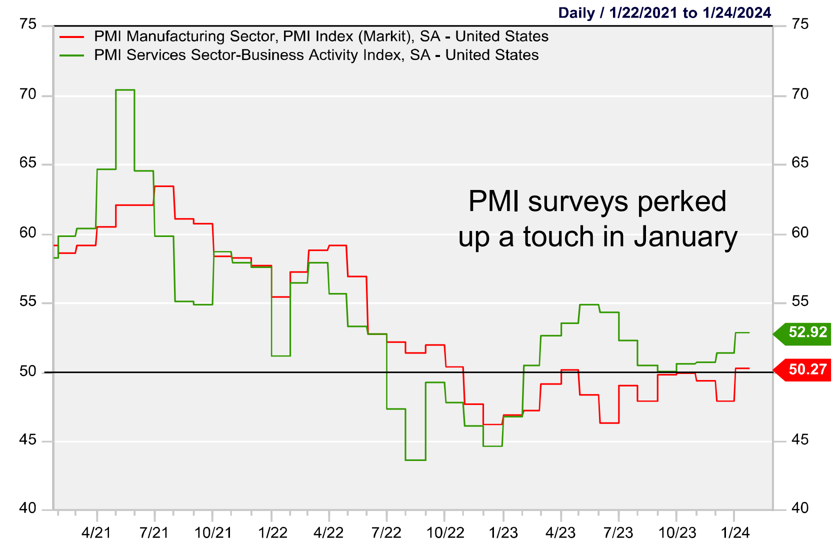
Macro: US

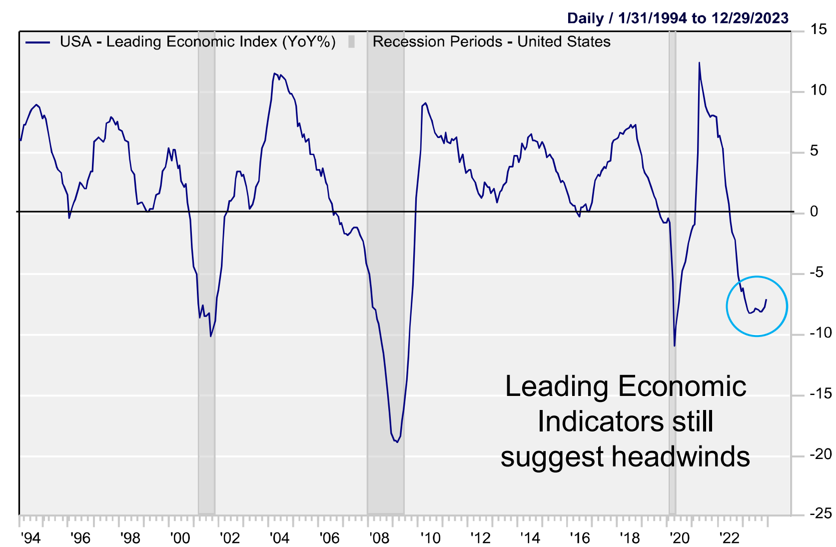
The Fed is getting what it wants- inflation coming down without job destruction so far. We have now seen 7 consecutive months of "normal" core CPI m/m and leading indicators point to a continuation of lower inflation ahead. Meanwhile, job openings are in decline rather than actual employment. As the job market normalizes, wage growth is coming down (important influence on inflation). And the undersupplied labor market is supporting actual employment, which in turn is supporting consumer spending and economic activity.

Economic data over the past week has continued to support the soft-landing narrative and equity markets. But there are plenty of items that could disrupt the current trajectory of economic data and market mood. For example, geopolitical tensions in the Red Sea have contributed to an increase in the cost of shipping a standard 40-foot container (from ~$1,500 to ~$4,000 recently). The longer this transpires, the greater odds it could impact inflation or corporate margins. So while economic variables are on a better path, bumps can are likely to occur along the way.

Event	Period	Actual	Consensus	Prior
Building Permits SAAR (Preliminary)	DEC	1,495K	1,475K	1,467K
Continuing Jobless Claims SA	01/06	1,806K	1,840K	1,832K
Housing Starts M/M	DEC	-4.3%	-8.1%	10.8%
Housing Starts SAAR	DEC	1,460K	1,425K	1,525K
Initial Claims SA	01/13	187.0K	205.0K	203.0K
Philadelphia Fed Index SA	JAN	-10.6	-7.0	-12.8
Existing Home Sales SAAR	DEC	3,780K	3,825K	3,820K
Michigan Sentiment NSA (Preliminary)	JAN	78.8	69.5	69.7
Leading Indicators SA M/M	DEC	-0.10%	-0.30%	-0.50%
Richmond Fed Index	JAN	-15.0	-2.8	-11.0
PMI Composite SA (Preliminary)	JAN	52.3	51.0	50.9
Markit PMI Manufacturing SA (Preliminary)	JAN	50.3	47.8	47.9
Markit PMI Services SA (Preliminary)	JAN	52.9	51.5	51.4

Source: FactSet

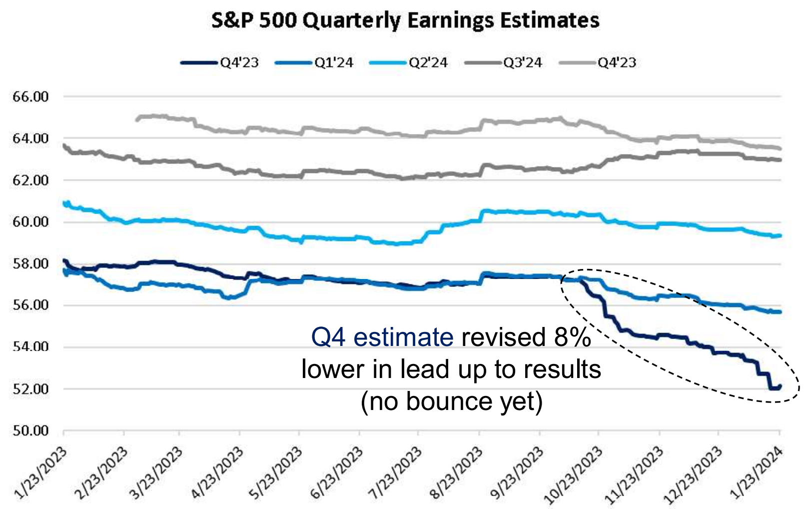




Q4 Earnings Season

13% of the S&P 500 has reported Q4 earnings up to this point, and results have been sub-standard overall. Despite lower estimate revisions in the lead up to announcements, only 64% of companies have beaten on the bottom-line (below the 77% 5-year average) and the aggregate earnings surprise has been -10.3% so far. Current estimates reflect a quarter-over-quarter earnings contraction of -10.4% for the S&P 500- with Technology the only sector showing positive sequential earnings growth.

Additionally, price reactions have been mixed (though slightly better than the early reporters). Half of companies are trading up on results, and the other half lower for an average 3-day price reaction of 0.5%. The market's run since late October likely left a high bar for results. Corporate guidance has not changed dramatically- estimates have held fairly steady and reflect solid growth over the next year. Of course, earnings announcements are set to ramp up over the next couple weeks- 142 more companies by the end of next week.

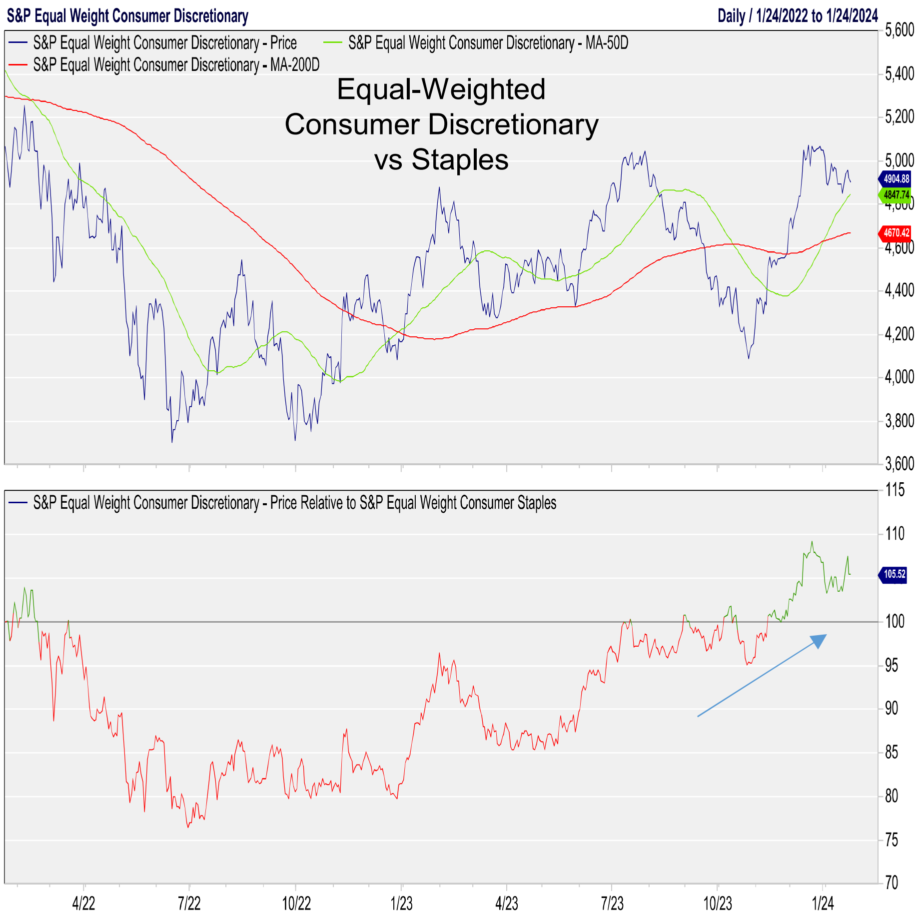


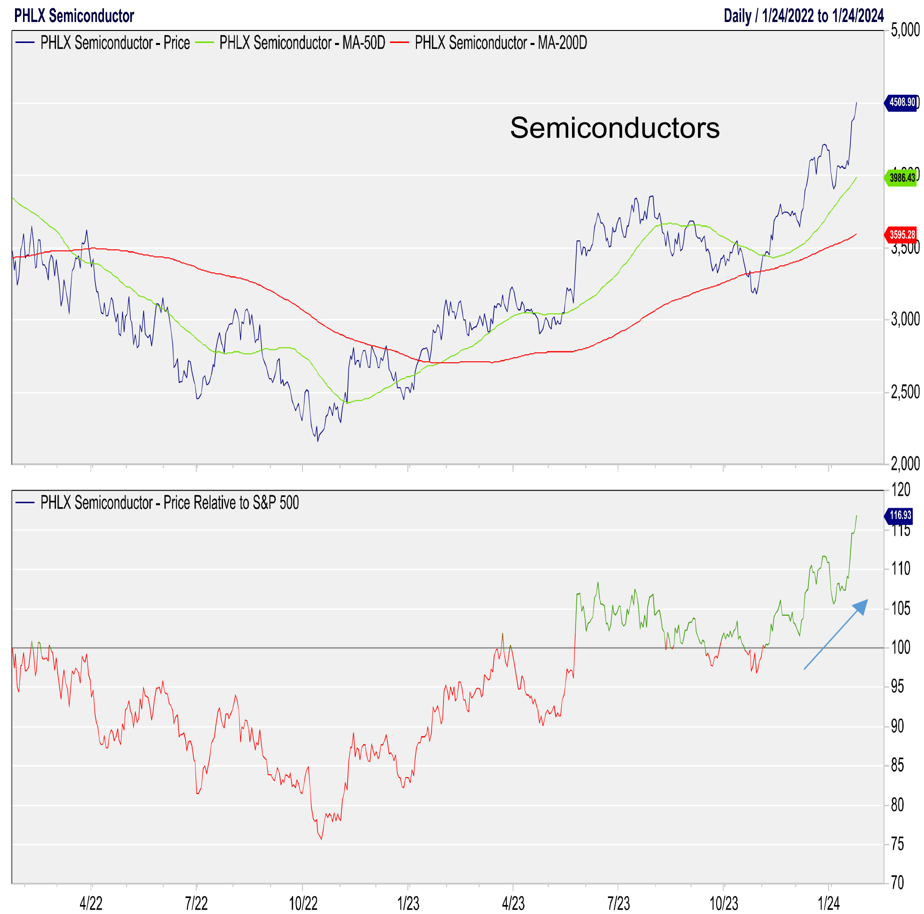
S&P 500 Sector	% Q4 Est. EPS Growth Y/Y	Q/Q	% EPS Surprise	# of Companies Reporting Positive	Inline	Negative	Est. Chg Since 12/31/23 Q4'23	2024	2025	Avg 1D Price Reaction	3-Day Reaction
S&P 500	**-1.0**	**-10.4**	**-10.3**	**47**	**4**	**18**	**-2.8%**	**-0.4%**	**-0.1%**	**0.2%**	**0.5%**
Information Technology	15.8	10.1	3.6	5	0	0	0.2%	0.2%	0.2%	1.4%	1.4%
Real Estate	0.8	-1.5	0.0	0	1	0	0.2%	0.3%	0.3%	-2.4%	-1.2%
Communication Services	45.9	-3.0	0.3	0	1	0	-0.4%	0.0%	-0.2%	5.4%	4.8%
Industrials	-1.4	-4.3	7.0	9	1	2	1.7%	-0.1%	-0.4%	0.9%	1.2%
Consumer Staples	0.7	-6.9	6.9	7	0	0	0.9%	-0.2%	-0.3%	-0.4%	-0.8%
Health Care	-20.9	-10.3	-4.2	1	0	2	-0.6%	-0.2%	-0.3%	-1.4%	-1.5%
Energy	-29.7	-14.3	1.5	2	0	1	-2.4%	-5.9%	-2.9%	-0.2%	1.0%
Materials	-23.1	-17.9	2.6	1	0	0	-3.1%	-0.2%	1.1%	1.3%	1.5%
Utilities	27.2	-24.3	-	-	-	-	-2.8%	-0.3%	0.1%	-	-
Consumer Discretionary	24.3	-25.2	8.0	7	0	1	0.7%	0.0%	0.7%	-9.2%	-10.7%
Financials	-20.1	-30.3	-32.2	15	1	12	-16.7%	0.1%	0.1%	-0.1%	0.4%

Source: FactSet

Positive Intermediate-Term Technical Indicators

A couple of intermediate-term technical indicators are also pointing in the right direction. Equal-weighted Consumer Discretionary vs. Staples has been a good predictor on the market's overall trend over the past couple of years and continues to move higher. Additionally, the semiconductors recently broke out to new highs in price and on a relative basis.

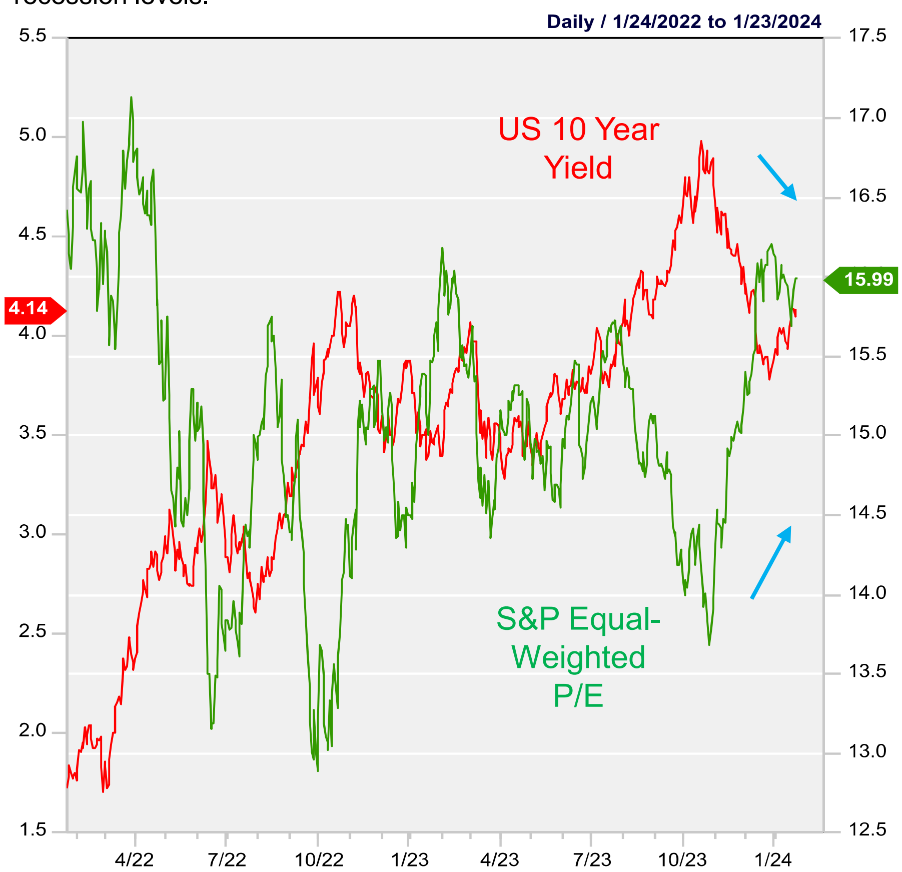


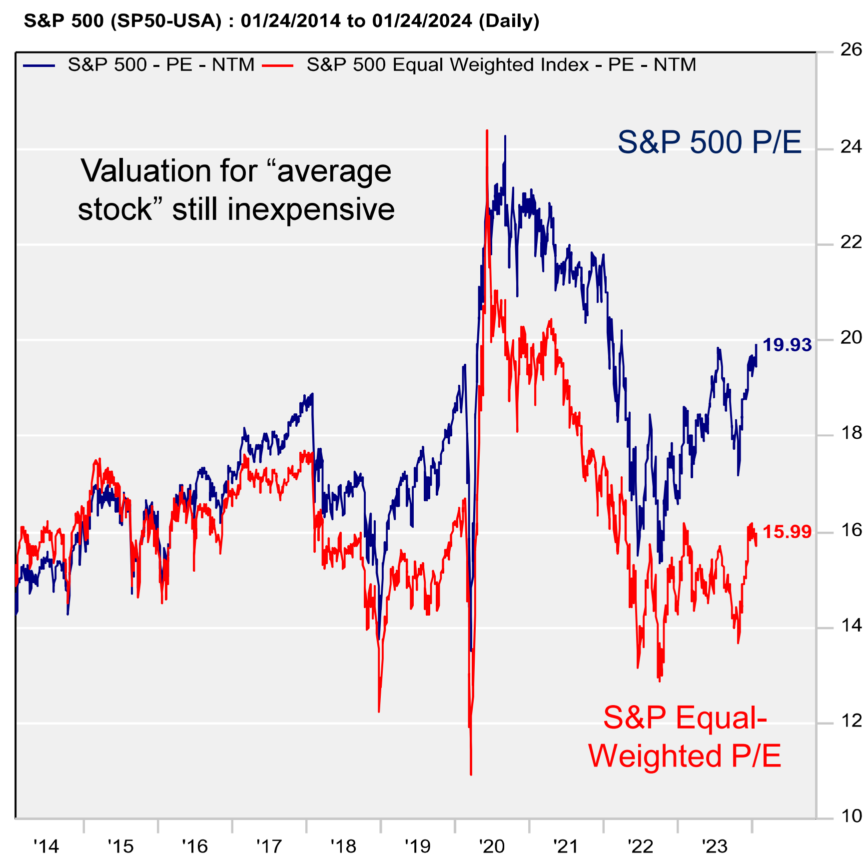


Source: FactSet

Interest Rates and Inflation are Important Influences on Valuation

Easier Fed messaging and supportive economic data have contributed to lower interest rates over the past few months, which has been a boost to equity market valuations. This has been (and continues to be) our base case driver of positive market returns. Despite the potential for soft earnings, we believe equities can climb higher over the next 12 months as the Fed likely cuts rates, bond yields trend lower, and potential economic weakness is mild. Additionally, valuations for the "average S&P 500 stock" are still inexpensive at a 16x forward P/E- in line with 2016 US manufacturing recession levels.





Source: FactSet

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