February 5th, 2024

VERED WEALTH MANAGEMENT (CANADA) COMPANY LIMITED

Weekly Market Guide

The S&P 500 has continued its upward momentum, now up 12 of the past 13 weeks and +20% since the late October lows. Additionally, January is set to finish up +1.6% which increases the odds of gains for the full year, i.e. the January barometer "so goes January, so goes the year." Historically, when January has been positive, the S&P 500 has finished the year positive 79% of
the time. **So far, 2024 is painting a good picture- economic data has been supportive, inflation is moving lower, interest rates are moderating, and Fed messaging has been easier.**

Financial market momentum- Strong investor opinion causes a market to maintain the dominant directional (up or down) trend, often beyond logical levels in terms of valuation, time between pullbacks, and degree of price extension (or contraction) relative to moving averages. **Momentum continues with only brief pauses until something appears to alter the dominant thought-influencing trend.** The 20% rally off the October lows is one of those periods. Until something alters the influences, expect higher prices to be the prevailing trend.

Influences:

- **Falling inflation (and corresponding lower rates)**- lower inflation removes the main market worry over the past few years and allows for higher valuation multiples.
- **Belief the Fed will loosen policy soon**- market expectations from the Fed reflect 37% odds of a rate cut in March, 100% odds of a cut in May, and 5 cuts for the full year.
- **Signs of an economic soft-landing**
- **AI frenzy**

Our take: We doubt the market has it 100% correct.

The biggest risk to altering the trend

- **Timing and degree of rate cuts**- strong economic data may cause the Fed to move slower
    - Falling inflation- does lower inflation help influence a stronger macro-environment? Does inflation's downward path become bumpier?
    - Fiscal stimulus potential is increasing ahead of the election- passing a tax package could be additive to GDP this year.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	-1.5%	5.1%
S&P 500	3.3%	22.6%
S&P 500 (Equal-Weighted)	0.4%	6.1%
NASDAQ Composite	3.3%	36.1%
Russell 2000	-1.5%	5.9%
MSCI All-Cap World	1.5%	14.6%
MSCI Developed Markets	-0.2%	5.9%
MSCI Emerging Markets	-4.2%	-6.1%
NYSE Alerian MLP	5.1%	16.7%
MSCI U.S. REIT	-3.2%	-2.6%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Communication Svcs.	9.1%	9.1%
Information Technology	6.2%	29.7%
Financials	4.2%	13.1%
S&P 500	***3.3%***	-
Health Care	3.0%	12.6%
Consumer Staples	2.1%	6.1%
Energy	1.4%	3.8%
Industrials	0.2%	8.5%
Consumer Discretionary	-1.7%	10.3%
Materials	-2.7%	2.3%
Utilities	-2.8%	2.2%
Real Estate	-4.1%	2.2%

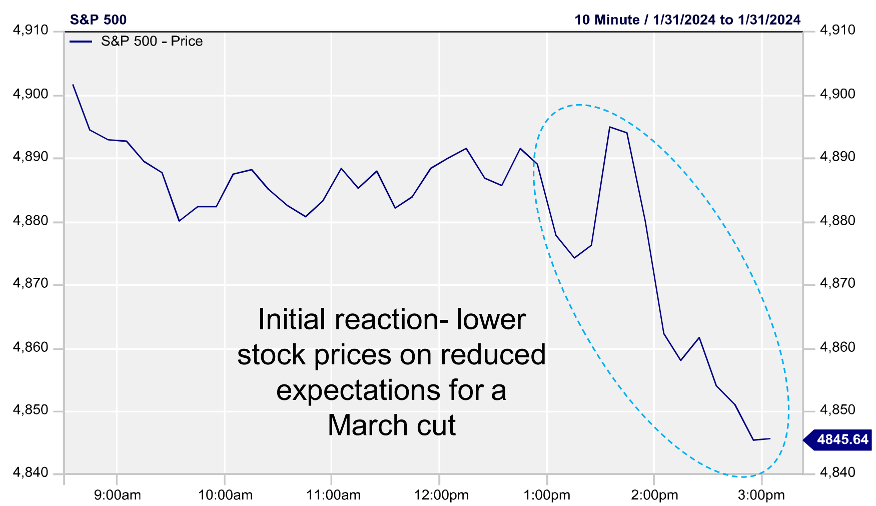
Source: FactSet

- **Economy-** the long and variable lags to tight monetary policy. Can't completely let go of these traditional influences- likely we have some slowing at some point.
    - The dominant opinion ever since the Fed started the tightening cycle of a mild recession developing is rapidly eroding. Entering last year, virtually every economist (including the Fed) thought we would have a recession. Entering this year, it's the opposite. Fading the dominant opinion is often rewarded.
- **Longer-term risk (2025)**- is this a repeat of the late 1960's? Inflation spiked (1966), stocks declined in excess of 20%, the Fed pivoted, stocks rallied 48%, 1968-1969 inflation came back causing a much more aggressive Fed. The aggressive tightening triggered recession and 30% decline for stocks. We believe the Fed is committed to bringing inflation lower and keeping it there (learning their lesson from pivoting too quickly). But this is a risk to monitor- we do not want high inflation rearing its head for years into the future.
- **Longer-term upside**- Is AI the next productivity-enhancer to support more rapid economic growth and hence, earnings growth?- with the end-result higher stock market prices.

FOMC Meeting – Initial Reaction

The FOMC elected to hold the fed funds rate unchanged at 5.25%-5.50%, while noting that the Committee wants greater confidence that inflation is moving "toward" its targeted 2%. The Fed's message signals that the past 6 months of better inflation data has eased their concerns and justifiably increased the odds of rate cuts this year. However, they are not declaring victory and need more data to confirm the ongoing trend. Chairman Powell also pushed back on the notion that a March cut should be expected.

The initial reaction by financial markets has been slightly lower expectations for a March cut (now 37% odds). Markets are still pricing in a May cut and 5+ cuts in 2024, but these can change. The data will remain influential on Fed expectations, either supporting the current economic trend (and market mood) or disrupt it. Over the next week, we receive January ISM Manufacturing and Services surveys, along with the January jobs report on Friday.



Source: FactSet, Bloomberg

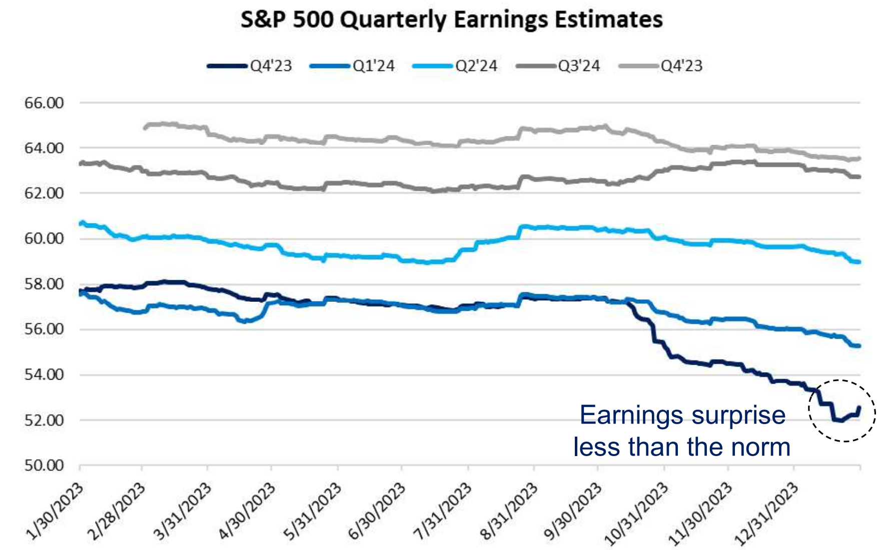

Region: United States »
Instrument: Fed Funds Futures »
Target Rate 5.50
Pricing Date 01/31/2024
Effective Rate 5.33
Cur. Imp. O/N Rate 5.321

Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.
03/20/2024	-0.368	-36.8%	-0.092	5.229	0.250
05/01/2024	-1.254	-88.6%	-0.313	5.008	0.250
06/12/2024	-2.319	-106.5%	-0.580	4.742	0.250
07/31/2024	-3.215	-89.6%	-0.804	4.517	0.250
09/18/2024	-4.205	-99.0%	-1.051	4.270	0.250
11/07/2024	-4.873	-66.8%	-1.218	4.103	0.250
12/18/2024	-5.599	-72.5%	-1.400	3.922	0.250
01/29/2025	-6.235	-63.6%	-1.559	3.762	0.250

Q4 Earnings Season

37% of the S&P 500 has now reported Q4 earnings with 72% of companies beating downwardly revised estimates by a median of 3.3%. The aggregate earnings surprise is -2.3%, reflecting -9.7% q/q earnings growth. The average 3-day price reaction has been muted at 0.9% with 56% of stocks trading higher on their announcement.

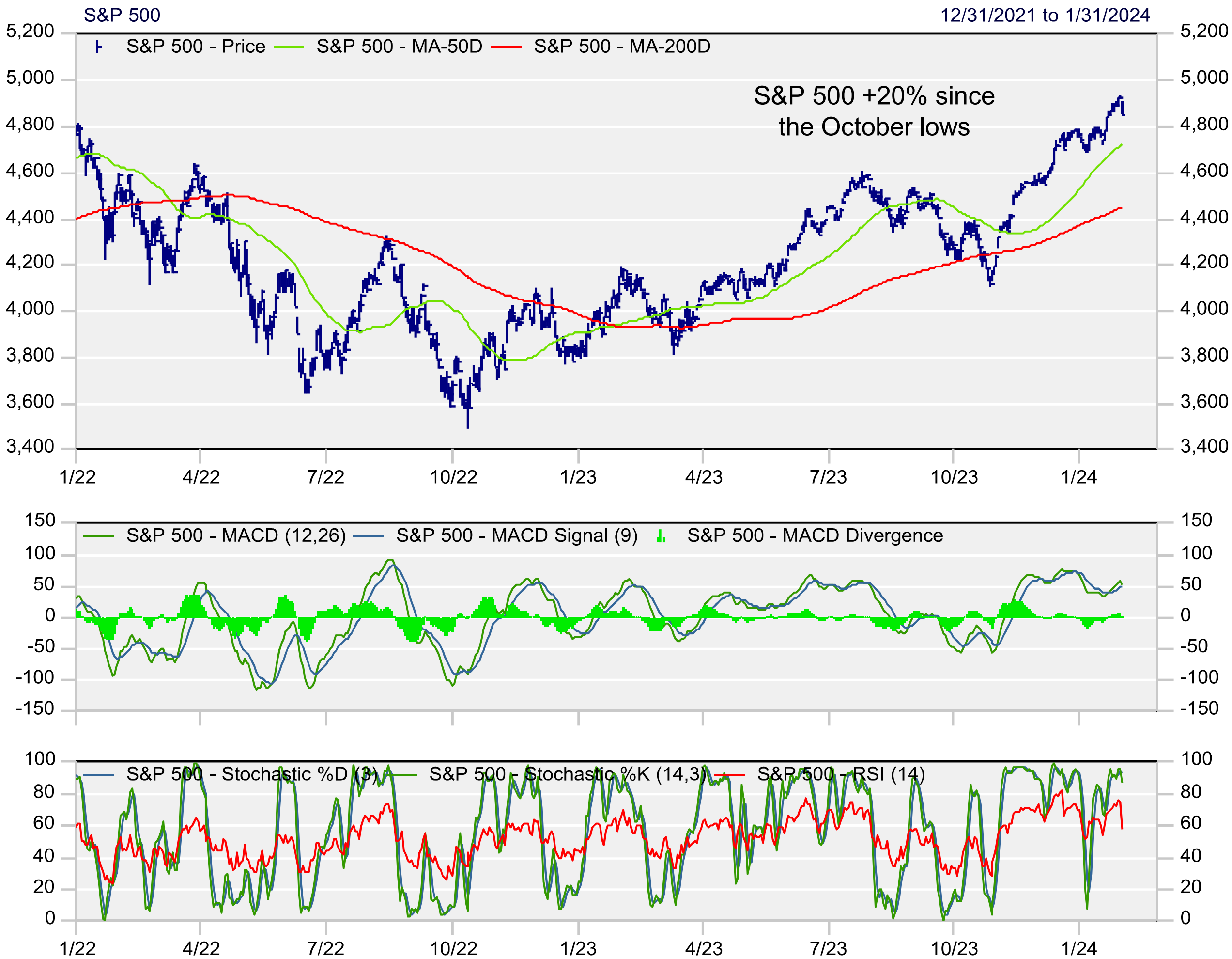
A big theme to watch during earnings season is mega-cap Tech dominance vs. virtually everything else. Tech earnings began over the past week and have seen a solid 7.1% positive surprise on the best earnings growth across sectors. However, initial reactions on those results have been weak with the average 3-day Tech reaction being -1.4%. This shows a high bar for results after their sharp gains, and we are interested to see the follow-through on a relative basis vs. the S&P 500 going forward. Relative earnings trends are favorable for Tech, but will that momentum subside?



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	**-0.1**	**-9.7**	**-2.3**	**105**	**8**	**31**	**-2.0%**	**-0.8%**	**-0.4%**	**0.4%**	**0.9%**
Information Technology	16.9	11.1	7.1	17	1	1	1.1%	-0.3%	0.0%	-0.8%	-1.4%
Real Estate	0.9	-1.4	0.9	2	1	1	0.3%	0.1%	0.2%	-0.1%	0.2%
Communication Services	45.6	-3.2	-1.6	1	1	3	-0.6%	-0.9%	-0.4%	2.1%	3.4%
Industrials	-0.1	-3.1	6.4	23	1	3	3.1%	0.0%	-0.5%	0.6%	0.8%
Consumer Staples	0.8	-6.8	5.9	10	0	1	1.0%	-0.3%	-0.3%	1.8%	2.8%
Health Care	-19.3	-8.4	9.0	7	1	2	1.5%	-1.1%	-0.7%	0.7%	1.7%
Energy	-27.9	-12.2	20.1	5	0	1	0.1%	-6.1%	-3.4%	1.7%	3.0%
Materials	-21.9	-16.6	8.1	6	0	1	-1.6%	-2.3%	-0.3%	2.1%	2.0%
Utilities	27.7	-24.1	6.4	1	0	1	-2.5%	-0.3%	0.0%	1.4%	3.5%
Consumer Discretionary	24.6	-25.0	5.2	10	0	3	1.0%	-0.9%	-0.3%	-2.9%	-1.7%
Financials	-20.1	-30.3	-21.9	23	3	14	-16.7%	0.2%	0.3%	0.3%	0.7%

Source: FactSet

Technical: S&P 500



Source: FactSet

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Additionally, January is set to finish up +2% which increases the odds of gains for the full year, i.e. the January barometer “so goes January, so goes the year.” Historically, when January has been positive, the S&P 500 has finished the year positive 79% of the time.

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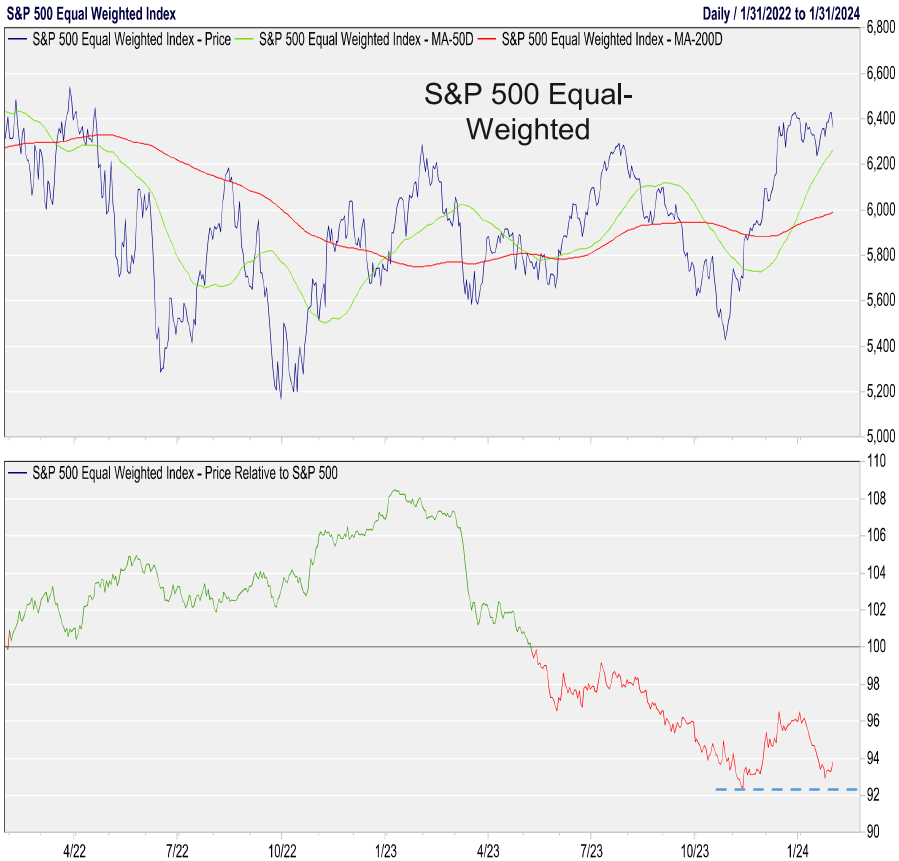
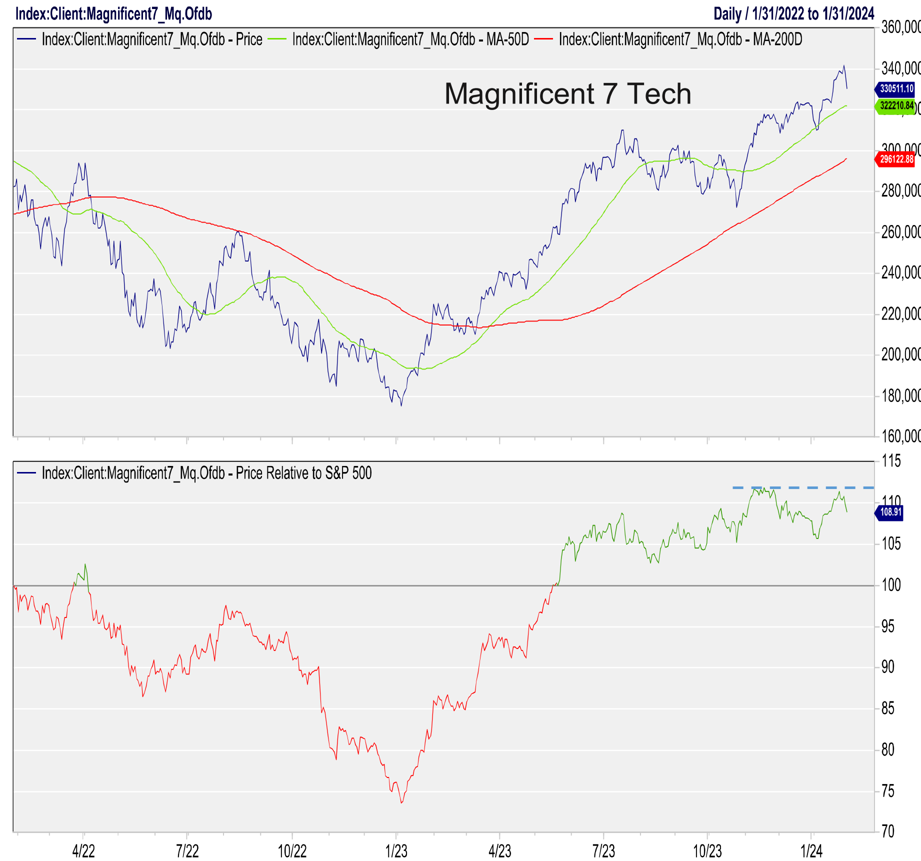
Short-term support to monitor:
~4800- horizontal support at prior highs
4790- 30 DMA which held twice in January
4710- 50 DMA
4600- July highs and 38% Fibonacci retracement of up-move since October

Rotation Making A Stand

Relative strength for the equal-weighted S&P 500 came down to support and has been able to hold so far. This is an initial stand; and we would like to see relative strength develop a base or uptrend, which would indicate broader market participation. Mega-cap Tech stocks remain in the best trends supported by fundamental strength, but will this uptrend begin to subside with Tech pulling back on earnings this week? We will need to evaluate forward estimates and follow-through for the stocks in order to build conviction on potential rotation.





Source: FactSet (M24-404916)

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