VERED WEALTH MANAGEMENT (CANADA) COMPANY LIMITED

February 12th, 2024

Weekly Market Guide

While the last week has been eventful (Fed suggesting a delay in the first expected rate cut, credit challenges at regional banks, volatility around earnings season, and a strong US jobs report), **it did very little to disrupt the long-term narrative for equities**, which is: market momentum remains strong, the U.S. economy remains resilient, inflation is expected to continue to moderate, and rate cuts are still expected to happen even if it's delayed. In the near-term, this continued tug-of-war between the market

message and the economic/earnings message may cause brief periods of volatility. However, **over the next 12-18 months, we maintain a positive bias towards equities** as the economy and earnings shift to be the dominate focus for investors.

We continue to see strong support for the recent momentum for equities including:

- **January Barometer:** We hope the old adage "so goes January, so goes the year" holds true as it paints an optimistic picture for equity returns for 2024. With the S&P 500 gaining 1.6% in January (and could have been stronger barring the sharp sell-off during the final trading day), historically, odds have increased that full-year market returns are positive when January is positive (since 1929, **79% of the time the market has been higher following a positive January)**. Moreover, this is also an election year. Historically, election years, on their own, have been favorable for equity markets, but combined with the fact that January was positive, this has occurred 11 times historically, with all eleven years seeing positive full-year returns.

- **Still Opportunity for Breadth to Broaden in 2024**: Despite the past week seeing rotation back to the winners of 2023 (large caps were strong while small-caps were weaker), we still see opportunities for breadth to broaden out as we go through 2024, which should be positive for active managers.

- **Earnings and the Economy Remain Resilient:** For equities to see a durable move higher, the economy and earnings will need to continue to improve long-term, and recent data suggests that the economy remains resilient. The strong non-farm payrolls suggest that the labor market remains robust and ISM Services continue to point to expansion. Moreover, earnings season remains strong with 75% of companies beating expectations by an average of 3.2%, albeit a deceleration from recent trends, it is still suggestive that corporate profits can grow in 2024. And finally, the tax package has momentum as it was easily able to pass the House (and now moves to the Senate). If approved, the potential impact to GDP growth, could help stave off economic slowdown.

From a technical picture, momentum remains strong as the S&P 500 continues to glide through logical resistance levels. We see the next potential level of resistance at 5014 and then 5085 with logical support at 4809 and 4710. However, with the S&P 500 up over 20% from the October lows and RSI near overbought levels, we believe the market may be due for a breather in the near-

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	-4.4%	-2.3%
S&P 500	3.9%	20.5%
S&P 500 (Equal-Weighted)	-0.1%	3.7%
NASDAQ Composite	4.0%	31.3%
Russell 2000	-3.6%	-0.2%
MSCI All-Cap World	1.9%	14.1%
MSCI Developed Markets	-0.6%	6.7%
MSCI Emerging Markets	-2.3%	-1.4%
NYSE Alerian MLP	1.6%	13.4%
MSCI U.S. REIT	-4.2%	-6.0%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Communication Svcs.	9.6%	9.1%
Information Technology	6.8%	29.7%
Health Care	5.5%	12.8%
S&P 500	***3.9%***	-
Financials	3.1%	12.9%
Consumer Staples	2.7%	6.1%
Industrials	1.8%	8.6%
Consumer Discretionary	-0.1%	10.4%
Energy	-0.3%	3.7%
Materials	-3.7%	2.2%
Utilities	-4.7%	2.1%
Real Estate	-4.7%	2.2%

Source: FactSet

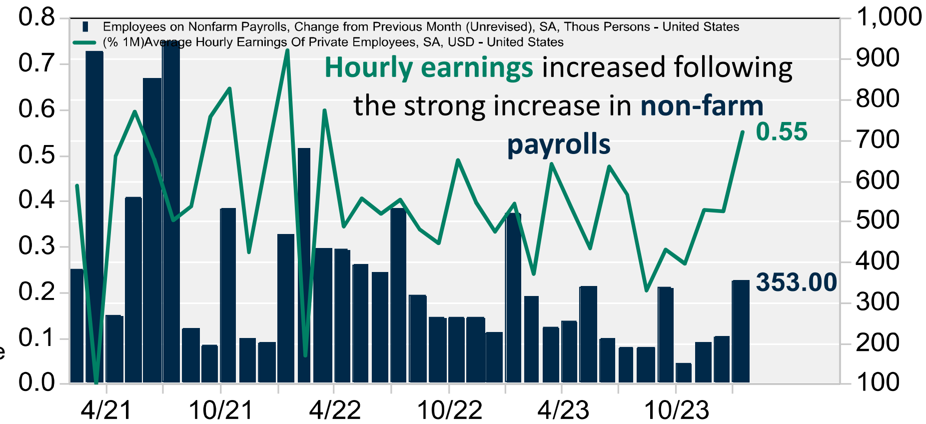
term to digest some of the recent gains as it moves into a seasonally slower February timeframe. In the near-term, it may be prudent to exercise some patience as some bearish divergences are beginning to emerge (such as: lower high in RSI for S&P 500 and NASDAQ 100, % of members trading above moving averages decelerating for the S&P 500 and NASDAQ 100, and narrowness in the leadership). For long-term investors, we would use any period of consolidation as a buying opportunity as we would expect the draw down to be brief given the momentum we continue to see for equities.

Macro: US

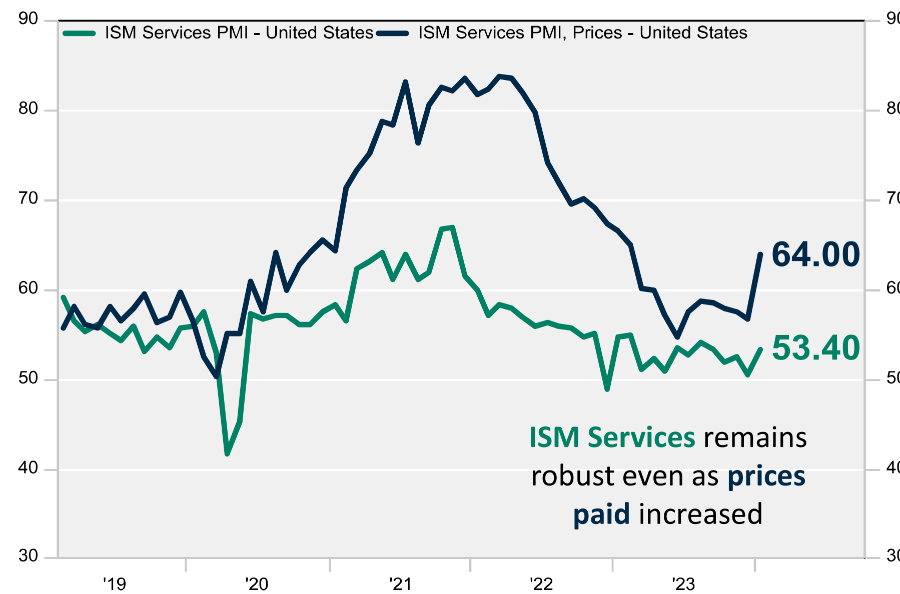
Following the FOMC's meeting, in which the expectation for a March rate cut was repriced, the Fed, which has been data dependent, implied that it needs more evidence that inflation is moving towards its 2% inflation target. This week, the macro data appears to continues to give the Fed cover to hold rates steady for now.

Non-farm payrolls surprised to the upside with 353K jobs added vs. the consensus expectation of only 175K and ISM Services rebounded in January to 53.4, continuing to point towards resiliency of the economy. On the other hand, we will continue to monitor inflation ahead of next week's CPI (2/13) and PPI (2/15) announcements. This week saw m/m hourly earnings for January increase 0.6% well ahead of the 0.3% expectation and ISM Services Prices paid of 64 vs. the prior reading of 56.7.

Given the Fed's desire for more evidence of moderating inflation (which we believe is prudent to avoid the stop-and-go policy of the 1960's) before a rate cut, the delay does very little (other than near-term noise) to disrupt the long-term outlook given the resiliency of the U.S. economy.



Event	Period	Actual	Consensus	Surprise	Prior
Continuing Jobless Claims SA	01/20	1,898K	1,840K	58.5K	1,828K
Initial Claims SA	01/27	224.0K	214.0K	10.0K	215.0K
Unit Labor Costs SAAR Q/Q (Preliminary)	Q4	0.50%	2.0%	-1.5%	-1.1%
Productivity SAAR Q/Q (Preliminary)	Q4	3.2%	2.1%	1.1%	4.9%
Markit PMI Manufacturing SA (Final)	JAN	50.7	50.3	0.40	50.3
Construction Spending SA M/M	DEC	0.90%	0.50%	0.40%	0.94%
ISM Manufacturing SA	JAN	49.1	47.2	1.9	47.1
Hourly Earnings SA M/M (Preliminary)	JAN	0.60%	0.30%	0.30%	0.38%
Hourly Earnings Y/Y (Preliminary)	JAN	4.5%	4.1%	0.40%	4.3%
Average Workweek SA (Preliminary)	JAN	34.1	34.3	-0.20	34.3
Nonfarm Payrolls SA	JAN	353.0K	175.0K	178.0K	333.0K
Private Nonfarm Payrolls	JAN	317.0K	148.0K	169.0K	278.0K
Unemployment Rate	JAN	3.7%	3.8%	-0.10%	3.7%
Durable Orders SA M/M (Final)	DEC	-0.01%	0.0%	-0.01%	0.0%
Factory Orders SA M/M	DEC	0.20%	0.40%	-0.20%	2.6%
Michigan Sentiment NSA (Final)	JAN	79.0	78.8	0.20	78.8
PMI Composite SA (Final)	JAN	52.0	52.3	-0.30	52.3
Markit PMI Services SA (Final)	JAN	52.5	52.9	-0.40	52.9
ISM Services Price SA	JAN	64.0	-	-	56.7
ISM Services PMI SA	JAN	53.4	52.0	1.4	50.5

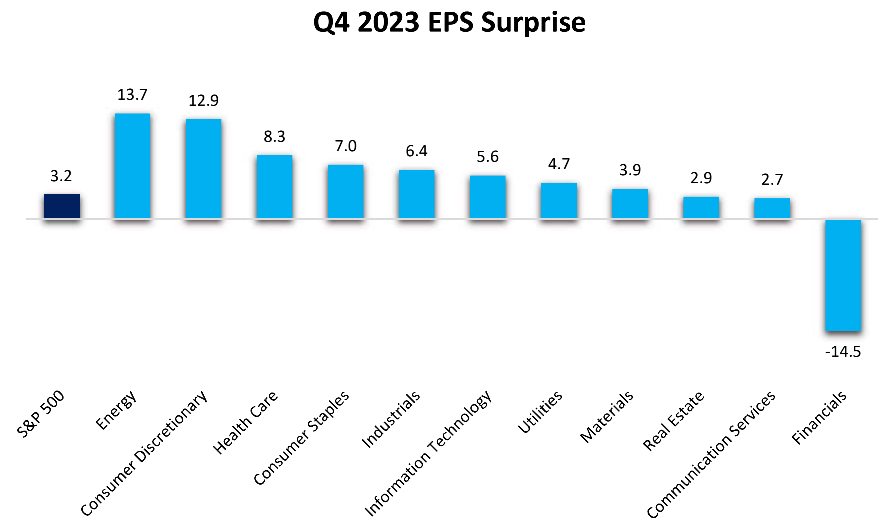


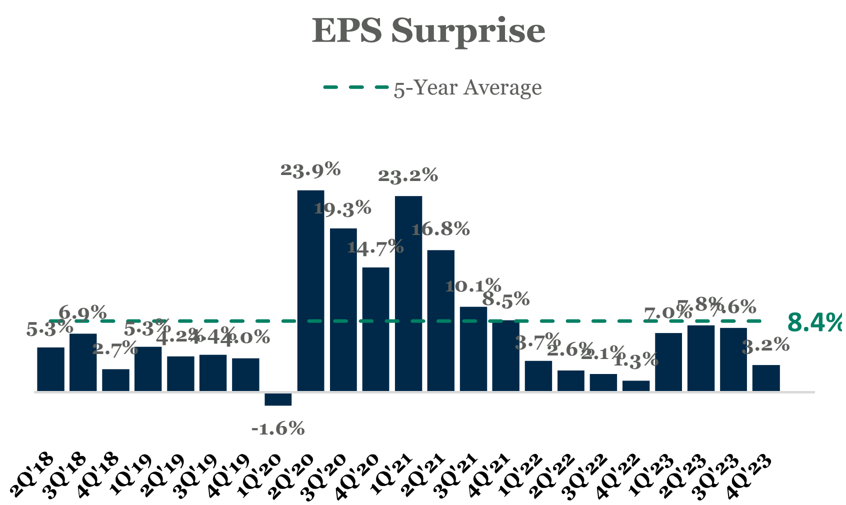
Source: FactSet

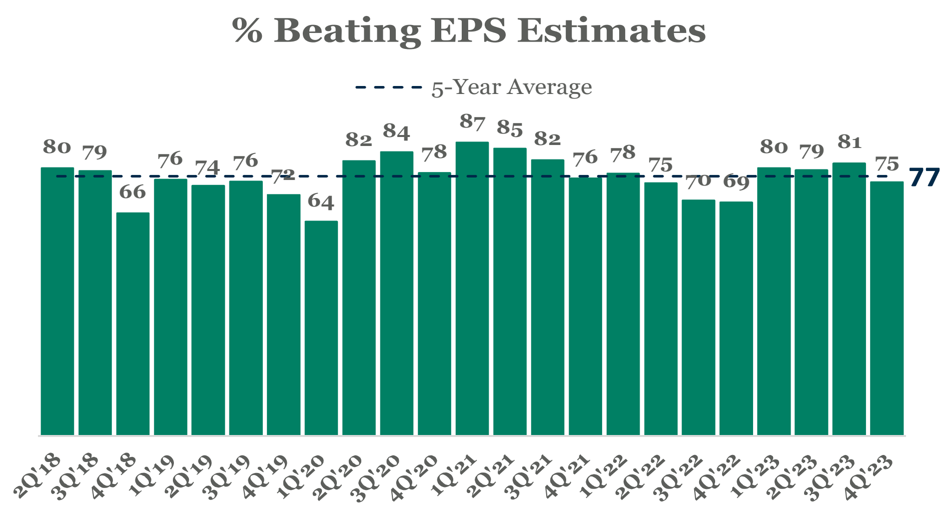
Q4 Earnings Season

Q4 earnings season continues to provide upside to estimates, albeit a deceleration from the strong EPS surprises over the last few quarters. Overall, 75% of companies are beating expectations by an average of 3.2% (vs. the 5-year average of 77% and 8.4%, respectively). The sectors seeing the strongest earnings surprises this quarter are Energy +13.7% and Consumer Discretionary +12.9%, while the challenges at the regional banks are weighing on the Financials, which have seen a -14.5% negative surprise to earnings for 4Q.

Since year-end, 2024 earnings have been revised lower by 0.5% while 2025 consensus estimates have stayed flat. While we maintain that earnings are likely to be revised lower through the year (our base case is \$220-\$230 in earnings vs. current consensus of \$242.16), we still expect earnings to see growth in 2024, which should be a nice tailwind for equities.







Source: FactSet

Technical: S&P 500

Source: Bloomberg

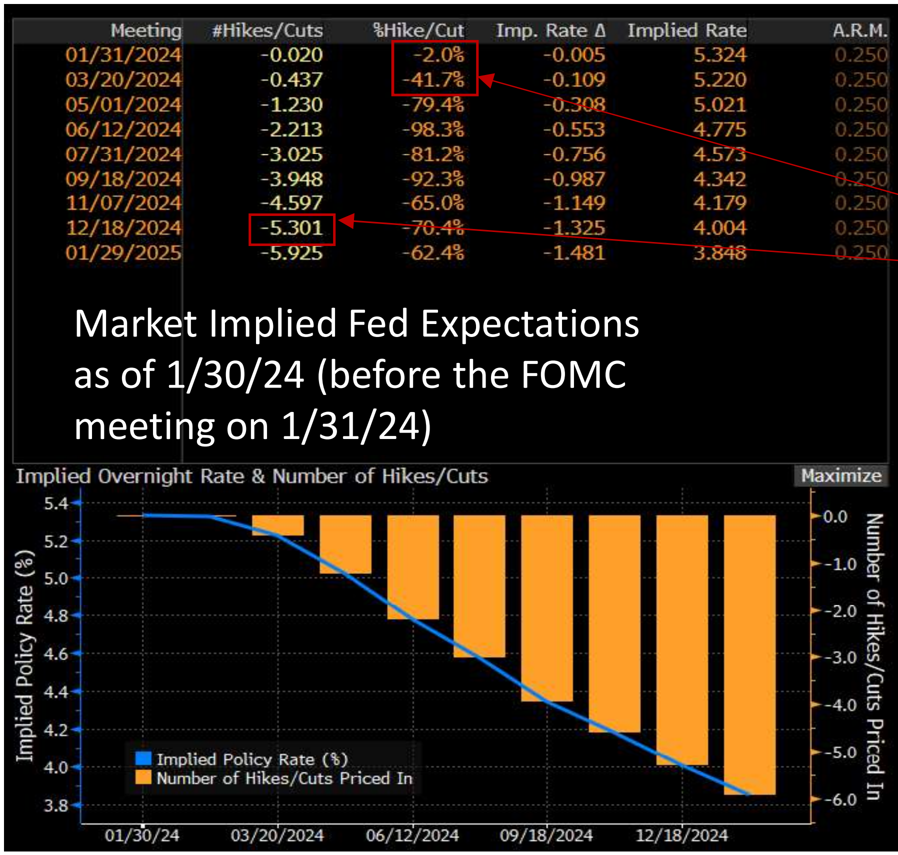
Since the October low, momentum has been strong for the S&P 500. Now with the index up over 20%, we see it prudent to exercise some patience in the short-term as we move into a seasonally weaker February time period and some bearish divergences begin to form. However, we would expect any short-term pullbacks to remain brief as momentum remains robust (logical resistance levels have done very little to slow down the rate of ascent as markets moved higher over the last few months as it was able to bounce off support and break through the 200-DMA, 50-DMA and prior high with relative ease).

We will be monitoring 5014 and 5085 as the next potential level of resistance with logical support at 4809 followed by 4710.

For long-term investors, we would use any period of consolidation as a buying opportunity as we would expect the drawdown to be brief.

Fed Expectations

While a lot has been made of Chairman Powell’s comments that effectively took a rate cut in March off the table following the latest FOMC meeting, we believe the delay does little to shift the long-term narrative for equities. Despite the odds of a March cut being repriced, we still view rate cuts as a “when, not if” scenario, and the market implied expectations are still for nearly 5 rate cuts by the end of the year, which is consistent with the odds before the FOMC meeting, and still ahead of the FOMC’s official projection for rate cuts. Overall, we see the market taking the delay in rate cuts in stride as volatility was spark initially by the comments, but the S&P 500 was able to quickly recover as momentum continued.



Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.
01/31/2024	-0.020	-2.0%	-0.005	5.324	0.250
03/20/2024	-0.437	-41.7%	-0.109	5.220	0.250
05/01/2024	-1.230	-79.4%	-0.308	5.021	0.250
06/12/2024	-2.213	-98.3%	-0.553	4.775	0.250
07/31/2024	-3.025	-81.2%	-0.756	4.573	0.250
09/18/2024	-3.948	-92.3%	-0.987	4.342	0.250
11/07/2024	-4.597	-65.0%	-1.149	4.179	0.250
12/18/2024	-5.301	-70.4%	-1.325	4.004	0.250
01/29/2025	-5.925	-62.4%	-1.481	3.848	0.250

Meeting	#Hikes/Cuts	%Hike/Cut	Imp. Rate Δ	Implied Rate	A.R.M.
03/20/2024	-0.212	-21.2%	-0.053	5.271	0.250
05/01/2024	-0.826	-61.3%	-0.206	5.117	0.250
06/12/2024	-1.730	-90.4%	-0.432	4.891	0.250
07/31/2024	-2.575	-84.5%	-0.644	4.680	0.250
09/18/2024	-3.498	-92.3%	-0.874	4.449	0.250
11/07/2024	-4.134	-63.7%	-1.034	4.290	0.250
12/18/2024	-4.827	-69.3%	-1.207	4.117	0.250
01/29/2025	-5.435	-60.8%	-1.359	3.965	0.250

Source: Bloomberg

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