February 26th, 2024

VERED WEALTH MANAGEMENT (CANADA) COMPANY LIMITED

Weekly Market Guide

The S&P 500 has exhibited a steady climb higher for roughly four months now- with the drivers of this upside being supportive economic data, lower inflation, easier Fed expectations, and lower interest rates.

Over the past few weeks there has been some disruption to the trajectory of a few of these factors. We have seen several upside surprises to January inflationary data, i.e. an uptick in wage growth within the strong jobs report, higher prices paid in the ISM Services survey, and last week's 0.4% core CPI and 0.5% core PPI. These data points are a bit higher than desired and have pushed out the timeline of expected Fed rate cuts. The market is currently pricing in June as the initial rate cut and 3-4 cuts by year-end (vs. expectations of a March beginning and 5-6 cuts in 2024 when the year began). Bond yields have risen as a result.

Despite the upside in inflation and bond yields, equity market momentum has not been meaningfully affected (yet?). A reason for this may be investor focus shifting more towards the economy (which is holding up well), giving some leeway to inflation and timeline of Fed cuts with the idea that inflation is on a downward path and Fed cuts are a matter of time. And as long as the economy holds up (which is being supported by an undersupplied labor market and fiscal spending), corporate earnings can grow and stocks can perform well.

We remain positive on the underlying drivers to produce higher prices over the next 12 months. However, an easy glide path higher is unrealistic. The market is giving the benefit of the doubt to a lot of variables that could upset the market mood at some point in time. Accordingly, we recommend a positive but pragmatic approach to portfolio management following a 23%rally over 72 days.

In the short-term, we are watching bond yields. Given their inverse correlation to equity valuation multiples over the past couple of years, continued upside would likely act as a headwind to equities. The Fed's favored measure of inflation (Core PCE) will be important to monitor on 2/29, and we also get to hear from six Fed speakers tomorrow. We would not be surprised to see the S&P 500 develop a consolidation phase soon, in order to digest some of its strong gains. Importantly, we see plenty of support levels nearby following the market climb, and believe a pause/pullback would be normal (and healthy).

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	-2.0%	0.7%
S&P 500	4.3%	22.0%
S&P 500 (Equal-Weighted)	0.9%	5.5%
NASDAQ Composite	4.1%	32.6%
Russell 2000	-1.1%	3.0%
MSCI All-Cap World	2.9%	16.0%
MSCI Developed Markets	1.5%	8.7%
MSCI Emerging Markets	-0.5%	2.0%
NYSE Alerian MLP	6.5%	19.0%
MSCI U.S. REIT	-3.5%	-3.3%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Communication Svcs.	9.9%	9.0%
Health Care	6.2%	12.8%
Information Technology	6.1%	29.3%
Financials	4.8%	13.0%
S&P 500	***4.3%***	-
Industrials	3.1%	8.7%
Consumer Staples	3.1%	6.1%
Energy	0.5%	3.7%
Consumer Discretionary	0.5%	10.4%
Materials	-0.8%	2.3%
Utilities	-3.9%	2.2%
Real Estate	-4.4%	2.2%

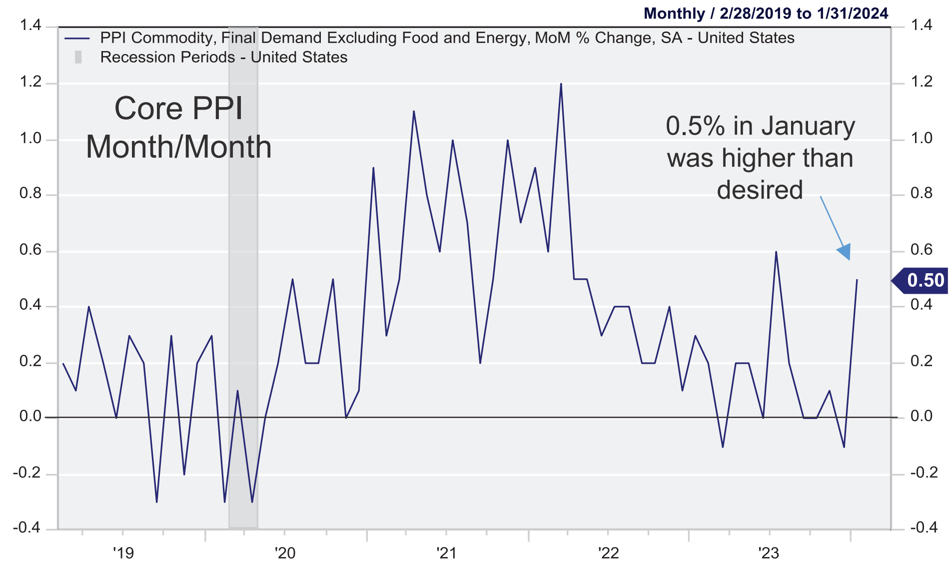
Source: FactSet

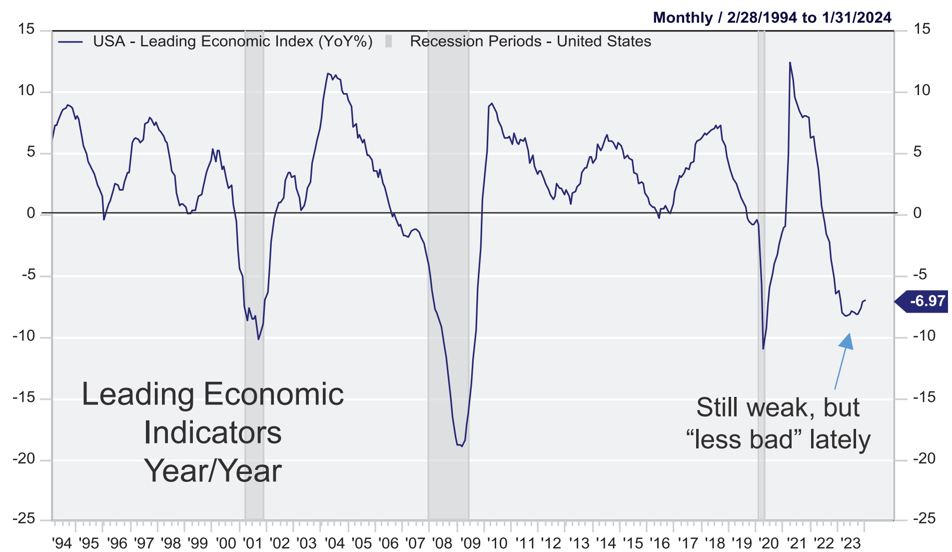
Macro: US

Core PPI of 0.5% m/m was the latest inflationary data point to come out above estimates, following “hot” wage growth in the strong jobs report, an uptick in ISM Services prices paid, and last week’s 0.4% m/m rise in core CPI. While we do not want to put too much significance on one month’s data set, January inflation was a bit higher than desired. It will be important to see those monthly numbers subside in February-March, in order to avoid “sticky” inflationary signals and tighter Fed expectations. The Fed’s favored measure of inflation- Core PCE- will be meaningful on 2/29, and we also get to hear from six Fed speakers tomorrow.

Event	Period	Actual	Consensus	Prior
Continuing Jobless Claims SA	02/03	1,895K	1,885K	1,865K
Export Price Index NSA M/M	JAN	0.80%	-0.20%	-0.70%
Import Price Index NSA M/M	JAN	0.80%	-0.05%	-0.70%
Initial Claims SA	02/10	212.0K	220.0K	220.0K
Empire State Index SA	FEB	-2.4	-11.8	-43.7
Philadelphia Fed Index SA	FEB	5.2	-8.5	-10.6
Retail Sales ex-Auto SA M/M	JAN	-0.60%	0.20%	0.43%
Retail Sales SA M/M	JAN	-0.80%	-0.15%	0.40%
Capacity Utilization NSA	JAN	78.5%	78.8%	78.7%
Industrial Production SA M/M	JAN	-0.10%	0.30%	0.0%
Business Inventories SA M/M	DEC	0.40%	0.60%	-0.10%
NAHB Housing Market Index SA	FEB	48.0	46.5	44.0
Building Permits SAAR (Preliminary)	JAN	1,470K	1,515K	1,493K
Housing Starts M/M	JAN	-14.8%	0.0%	3.3%
Housing Starts SAAR	JAN	1,331K	1,460K	1,562K
PPI ex-Food & Energy SA M/M	JAN	0.50%	0.15%	-0.10%
PPI ex-Food & Energy NSA Y/Y	JAN	2.0%	1.8%	1.7%
PPI SA M/M	JAN	0.30%	0.10%	-0.20%
PPI NSA Y/Y	JAN	0.90%	0.70%	0.96%
Leading Indicators SA M/M	JAN	-0.40%	-0.30%	-0.20%

Source: FactSet



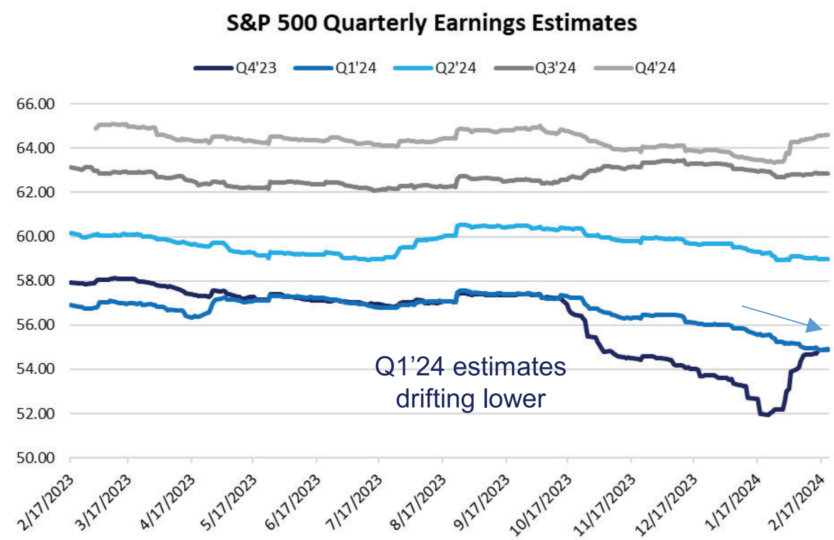


Q4 Earnings Season

Q4 earnings season is in its final stage, as 78% of the S&P 500 market cap has reported up to this point.

- 76% of companies have beaten estimates (which were revised meaningfully lower into earnings season) by an aggregate 4.3%.
- The average 3-day price reaction has been 0.4% with 52% of companies trading higher on their announcement. “Beat and raises” have seen a 2.5% average reaction, while the others have seen -0.9%.
- S&P earnings are set to grow 4.4% y/y and contract -5.6% q/q.
- Tech fundamental strength continues to support its performance trends- investor focus will be on a mega-cap Tech/semiconductor company’s results after the close today.

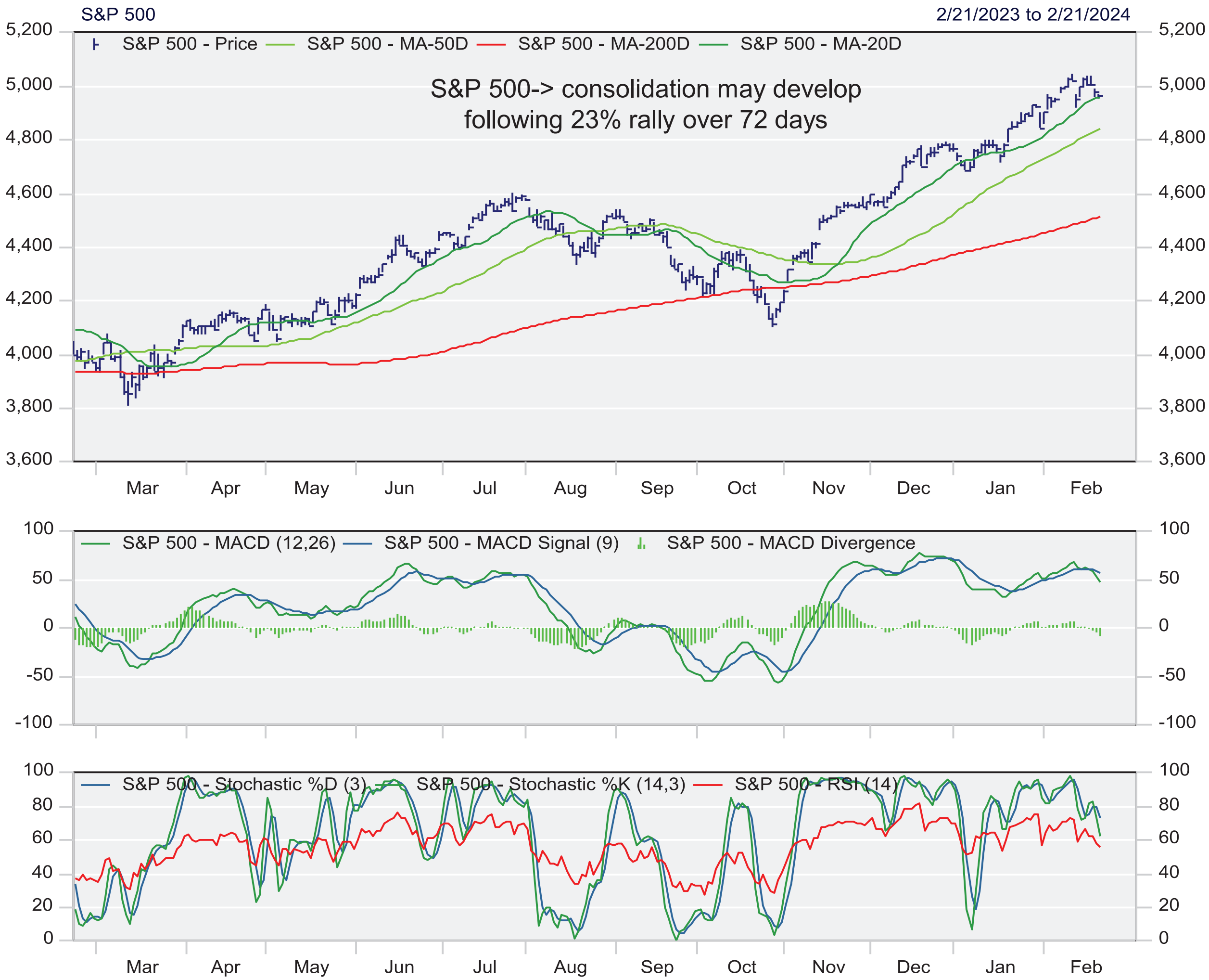
Looking ahead, Q1’24 estimates have drifted lower in recent months, while full-year 2024 and 2025 estimates have held steady- reflecting expectations for an earnings acceleration/recovery to begin in Q2’24 (we’ll see).



	% Q4 Est. EPS Growth		% EPS	# of Companies Reporting			Est. Chg Since 12/31/23			Avg 1D Price	3-Day	YTD	2023 EPS	2024 EPS	2025 EPS
S&P 500 Sector	Y/Y	Q/Q	Surprise	Positive	Inline	Negative	Q4'23	2024	2025	Reaction	Reaction	Return	Growth	Growth	Growth
S&P 500	**4.4**	**-5.6**	**4.3**	**305**	**24**	**75**	**2.5%**	**-0.5%**	**0.1%**	**0.3%**	**0.4%**	**4.01**	2.0%	**10.7%**	**13.4%**
Information Technology	21.3	15.4	5.9	44	2	4	4.9%	0.4%	0.8%	-0.2%	-0.6%	4.64	6.2%	16.1%	16.9%
Industrials	5.8	2.7	10.0	59	2	10	9.2%	-0.7%	-0.8%	0.7%	1.1%	3.36	20.2%	9.2%	14.0%
Communication Services	52.1	1.1	3.6	13	1	5	3.9%	2.4%	2.6%	0.9%	0.5%	9.87	29.4%	17.7%	13.6%
Real Estate	2.2	-0.1	2.2	10	8	3	1.6%	-0.1%	0.1%	0.2%	-0.7%	-4.42	1.5%	1.9%	5.9%
Consumer Staples	3.6	-4.2	5.6	22	3	2	3.8%	-1.0%	-0.8%	1.3%	0.8%	3.26	2.7%	4.7%	8.6%
Health Care	-16.6	-5.5	6.7	45	1	9	4.8%	-1.5%	-0.9%	0.3%	0.6%	5.75	-20.8%	15.8%	12.9%
Energy	-22.7	-5.8	13.5	12	1	2	7.4%	-7.9%	-2.8%	1.7%	2.9%	2.23	-26.8%	-7.1%	12.2%
Materials	-20.7	-15.4	4.8	17	0	7	-0.2%	-4.3%	-2.0%	1.1%	0.2%	-0.53	-23.2%	-1.5%	15.1%
Consumer Discretionary	34.1	-19.2	12.2	27	1	9	8.8%	1.4%	0.8%	-0.4%	0.2%	0.83	47.0%	12.7%	16.2%
Utilities	28.5	-23.6	2.4	10	1	4	-1.9%	-0.3%	-0.1%	1.2%	1.3%	-2.57	6.4%	7.4%	7.7%
Financials	-15.7	-26.4	-9.7	45	4	20	-12.1%	0.3%	0.6%	-0.3%	0.1%	4.65	3.1%	10.8%	11.7%

Source: FactSet

Technical: S&P 500



Source: FactSet

Last week's gap-lower (in reaction to CPI) was initially shaken off, but the S&P 500 index met resistance at prior levels/highs (5021) before rolling over slightly over the past few days.

The S&P 500 is testing its 20-day moving average (4945) now. This is the first important level, since it has held over the past few months.

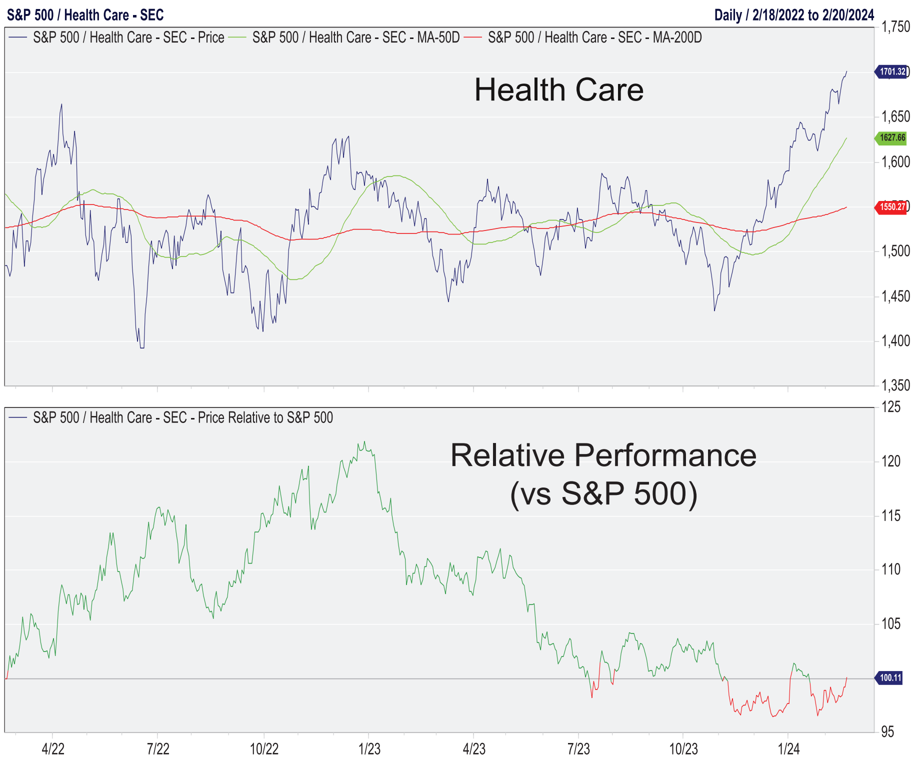
We would not be surprised to see the S&P 500 develop a consolidation phase soon, in order to digest some of its strong gains.

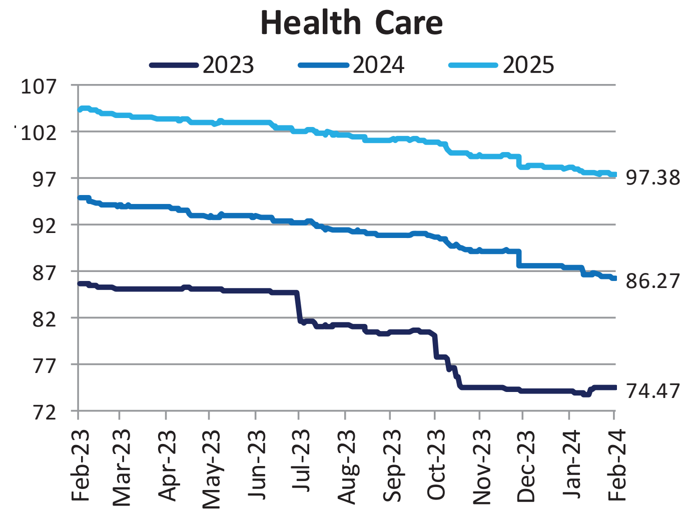
Importantly, we see plenty of support levels nearby following the market climb, and believe a pause/pullback would be normal (and healthy).

Support levels nearby (represent a normal 1-9% pullback):
4945- 20 DMA
4829- 50 DMA
4800- horizontal support (Dec-Jan)
4600- horizontal support (July highs)
4494- 200 DMA

Health Care

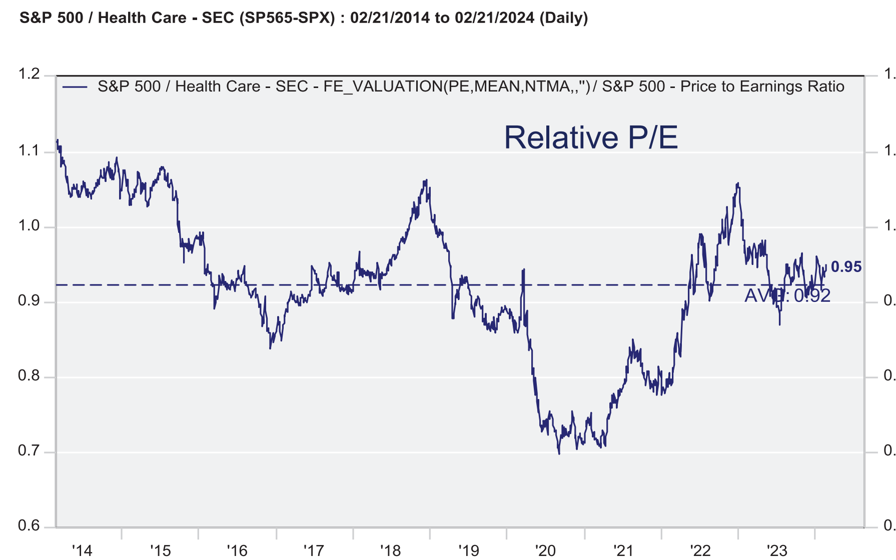
Outside of Technology, one of the best-performing areas this year has been Health Care. After being largely range-bound for two years, Health Care recently broke out to new all-time highs. We favor Health Care within the lower beta areas, given less interest-sensitivity and favorable earnings growth expectations. For example, 2024 and 2025 earnings growth is expected to be above-market at 15.9% and 12.9% respectively. That said, we would like to see the sector's negative estimate revision trend begin to stabilize.





EPS Growth Estimates	
2023	-20.9%
2024	15.9%
2025	12.9%

Favorable earnings growth, but want to see negative estimate revisions stabilize



Source: FactSet (M24-423180)

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