March 18th, 2024

VERED WEALTH
MANAGEMENT (CANADA)
COMPANY LIMITED

Weekly Market Guide

All eyes were on the heavy slate of February economic data over the past week, and the market largely took it in stride. Bond yields rose slightly to 4.19% (though still below February's peak levels near 4.35%), the first Fed rate cut is still expected (by consensus) in June, and the equal-weighted S&P 500 broke out to new all-time highs.

The data:

- Friday's February jobs report showed a **275k increase in nonfarm payrolls** (January was revised down to 229k from 353k). The unemployment rate ticked higher to 3.9% from 3.7%. Additionally, **wage growth was just 0.14%** (lowest monthly increase in two years) despite January revised lower to 0.5% (from 0.6%). **Net result was positive- employment is holding up (good for the economy) and wage growth is coming down (good for inflation).**
- **February CPI, on the other hand, was above desired levels again.** February **core CPI rose 0.36%**, following 0.39% in January. The upside surprise was in different areas from last month- this time in used cars +0.5% (which declined -3.4% in Jan), apparel +0.6%, and transportation services +1.4%. Important lesson- inflation is multi-faceted and moving in the right direction, though not as quickly as desired.

Our view: The market has largely looked past the recent upside surprises in core CPI, instead focusing on the leading indicators that suggest inflation should come down over the coming year. We agree that inflation is on a better path, supported by the lagged effects of tight monetary policy and reduced employment costs from a normalizing jobs market (putting downward pressure on inflation). **Lower inflation (albeit slower than anticipated) will ultimately support Fed rate cuts, economic growth, and higher valuation multiples- key tenets to our positive view on equities. That said, the "market leeway" being given to recent CPI puts the onus on data over the coming months to support/confirm that positive assessment of inflation's path. It is also very important that the economy continues to hold up well.**

Technically, market momentum remains strong, but at some point we will need to digest gains. Beneath the surface, market participation is improving with the equal-weighted S&P 500 pushing to a new all-time high. Relative strength has been unable to show sustainable upside, indicating leadership continues to be Tech-oriented for now. However, price trends have firmed up for many areas lately, i.e. 80% of S&P 500 stocks are above their 200-day moving average (highest reading in 2 years). This is an encouraging signal for widening opportunity outside of Tech and bodes well for diversification in our view.

Equity Market	Price Return	
Indices	Year to Date	12 Months
Dow Jones Industrial Avg	3.5%	22.2%
S&P 500	8.5%	34.0%
S&P 500 (Equal-Weighted)	5.0%	18.2%
NASDAQ Composite	8.4%	46.0%
Russell 2000	1.9%	16.5%
MSCI All-Cap World	6.7%	25.8%
MSCI Developed Markets	4.7%	14.1%
MSCI Emerging Markets	2.5%	9.8%
NYSE Alerian MLP	9.8%	25.1%
MSCI U.S. REIT	-1.0%	9.4%

S&P 500	Price Return	Sector
Sectors	Year to Date	Weighting
Information Technology	13.5%	30.2%
Communication Svcs.	11.7%	8.8%
S&P 500	***8.5%***	-
Financials	8.3%	12.9%
Health Care	7.6%	12.5%
Industrials	6.9%	8.7%
Consumer Staples	5.7%	6.0%
Energy	5.3%	3.8%
Materials	5.2%	2.3%
Consumer Discretionary	2.9%	10.3%
Utilities	-0.6%	2.1%
Real Estate	-0.9%	2.2%

Source: FactSet

Macro: US

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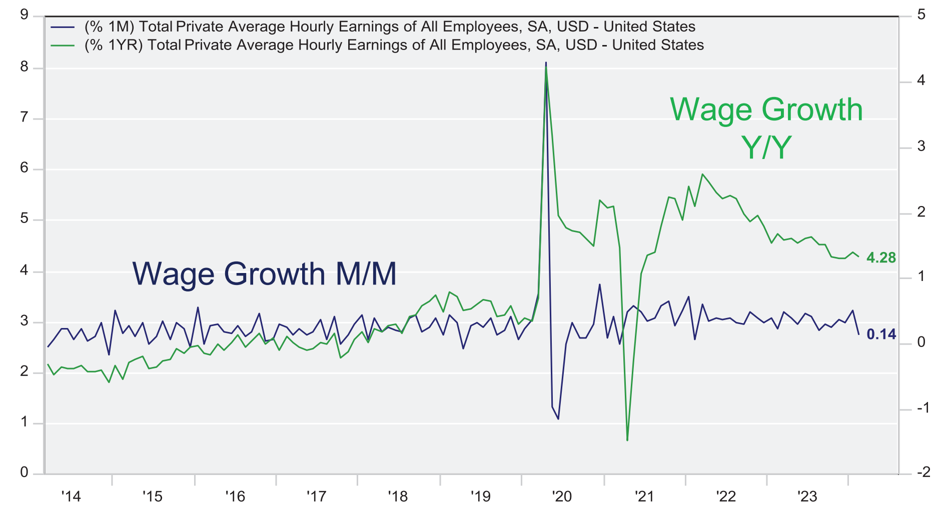
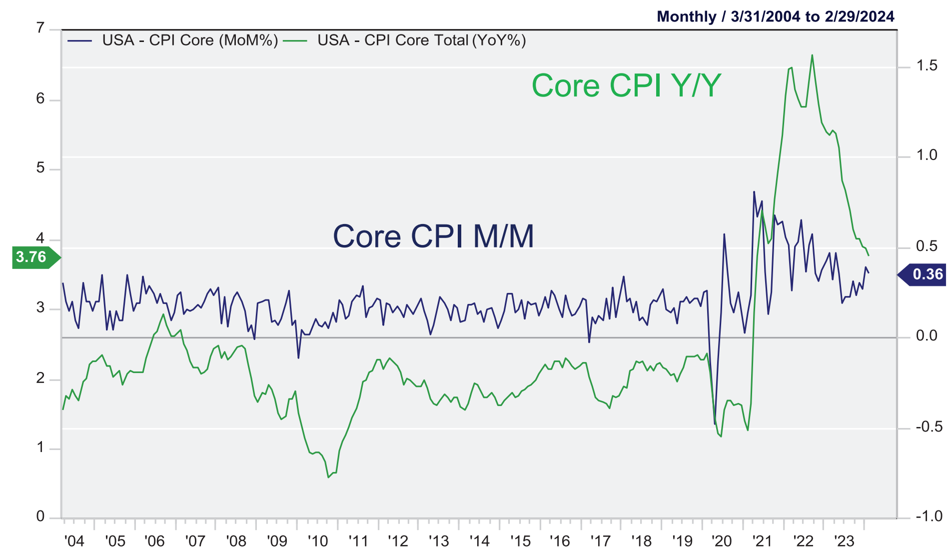
Event	Period	Actual	Consensus	Prior
Continuing Jobless Claims SA	02/24	1,906K	1,898K	1,898K
Initial Claims SA	03/02	217.0K	215.0K	217.0K
Unit Labor Costs SAAR Q/Q (Final)	Q4	0.40%	1.2%	0.50%
Productivity SAAR Q/Q (Final)	Q4	3.2%	2.3%	3.2%
Consumer Credit SA	JAN	$19.5B	$10.0B	$0.92B
Nonfarm Payrolls SA	FEB	275.0K	200.0K	229.0K
Unemployment Rate	FEB	3.9%	3.7%	3.7%
NFIB Small Business Index	FEB	89.4	-	89.9
CPI ex-Food & Energy SA M/M	FEB	0.40%	0.30%	0.40%
CPI ex-Food & Energy NSA Y/Y	FEB	3.8%	3.7%	3.9%
CPI SA M/M	FEB	0.40%	0.40%	0.30%
CPI NSA Y/Y	FEB	3.2%	3.1%	3.1%
Hourly Earnings SA M/M (Final)	FEB	0.10%	0.10%	0.10%
Hourly Earnings Y/Y (Final)	FEB	4.3%	4.3%	4.3%
Treasury Budget NSA	FEB	-$296.3B	-$237.8B	-$21.9B

Source: FactSet

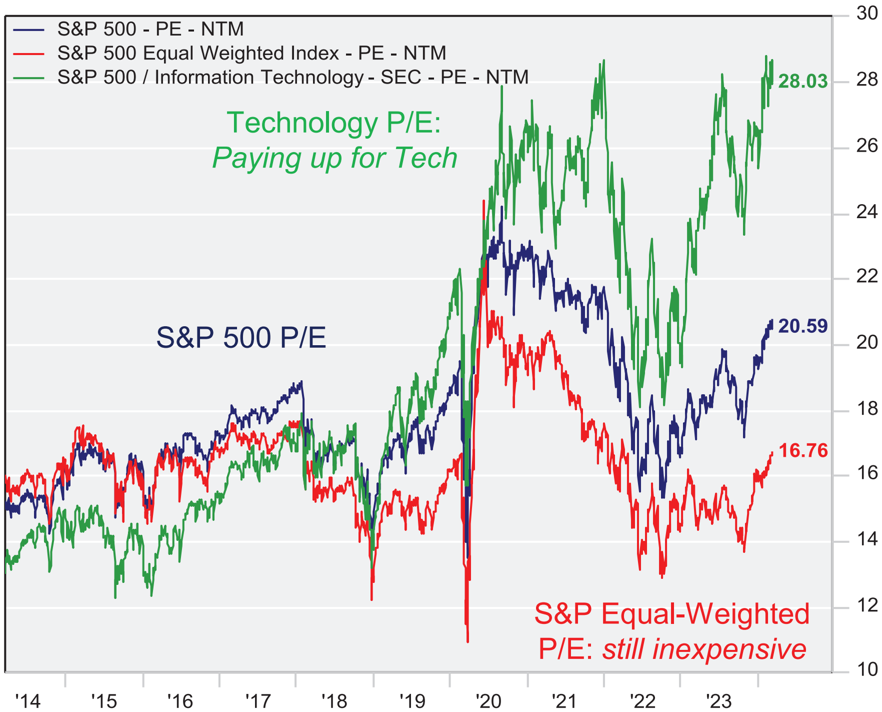




Valuation

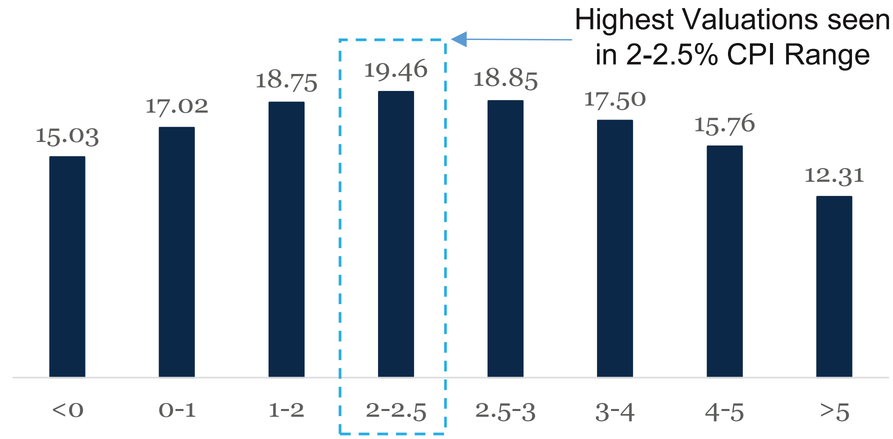
For long-term investors, 5- and 10-year inflation expectations are at the Fed's desired 2-2.5% level. Importantly, the highest valuations (on average) are seen at that range historically. While the S&P 500 P/E is elevated at 20.6x, this is due to Tech's 28x P/E (which is being supported by fundamental strength and AI enthusiasm). The "average stock" is still trading at a very reasonable 16.8x. This provides plenty of room for multiple expansion within the market, as the bar is still relatively low for many high-quality companies.

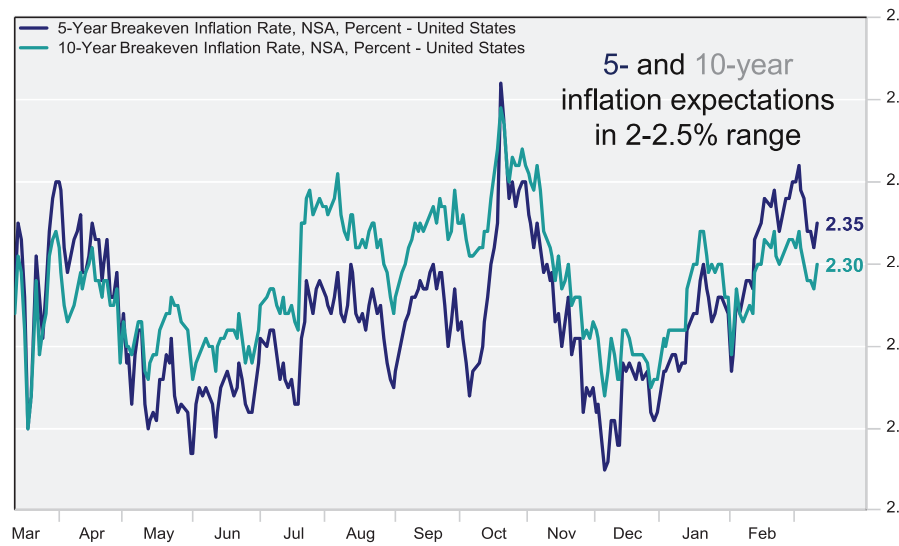
S&P 500 (SP50-USA) : 03/13/2014 to 03/13/2024 (Daily)



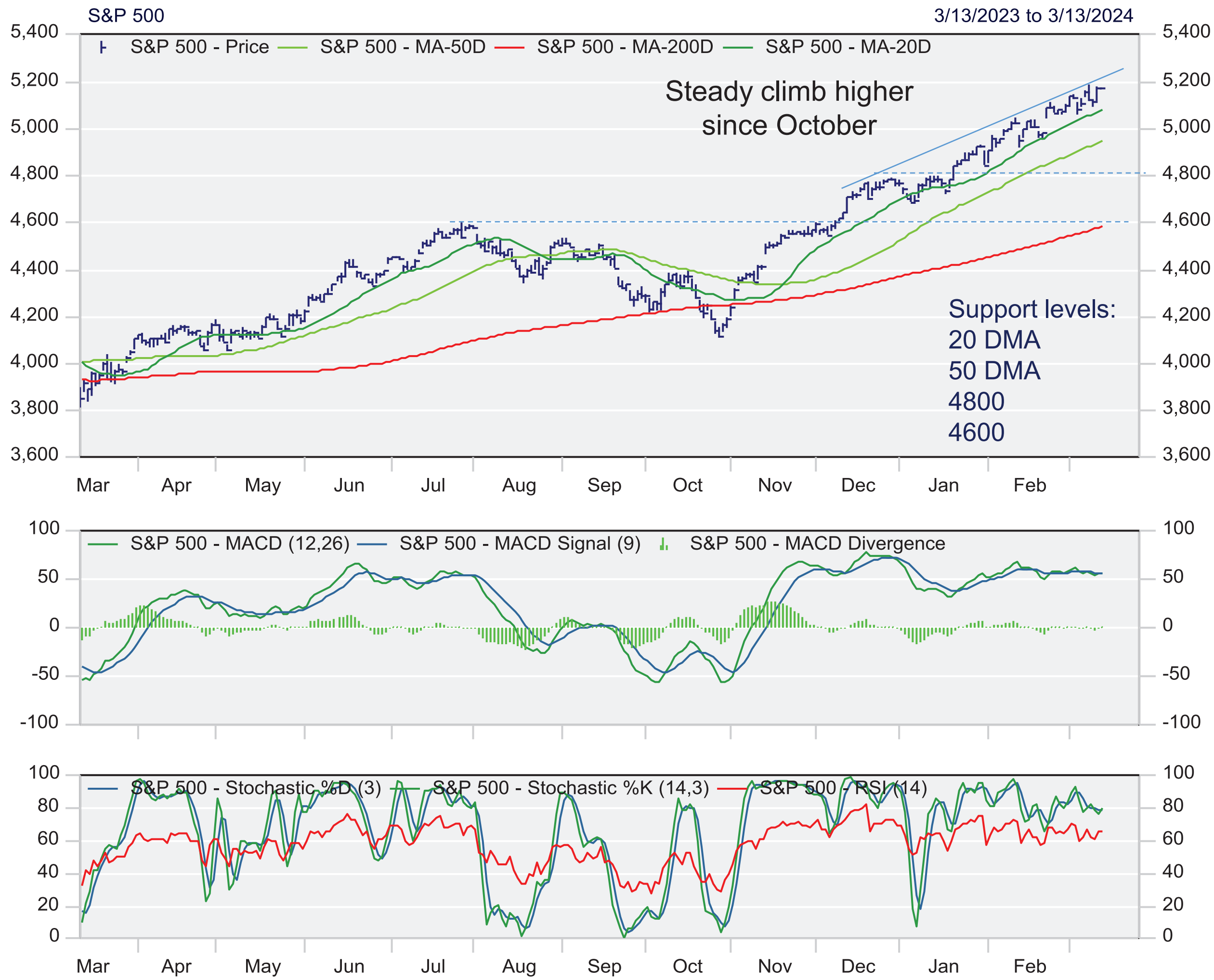
Source: FactSet

Average P/E based on Inflation Range (since 1954)





Technical: S&P 500



Source: FactSet

Market message: Momentum remains strong, but at some point we will need to digest gains.

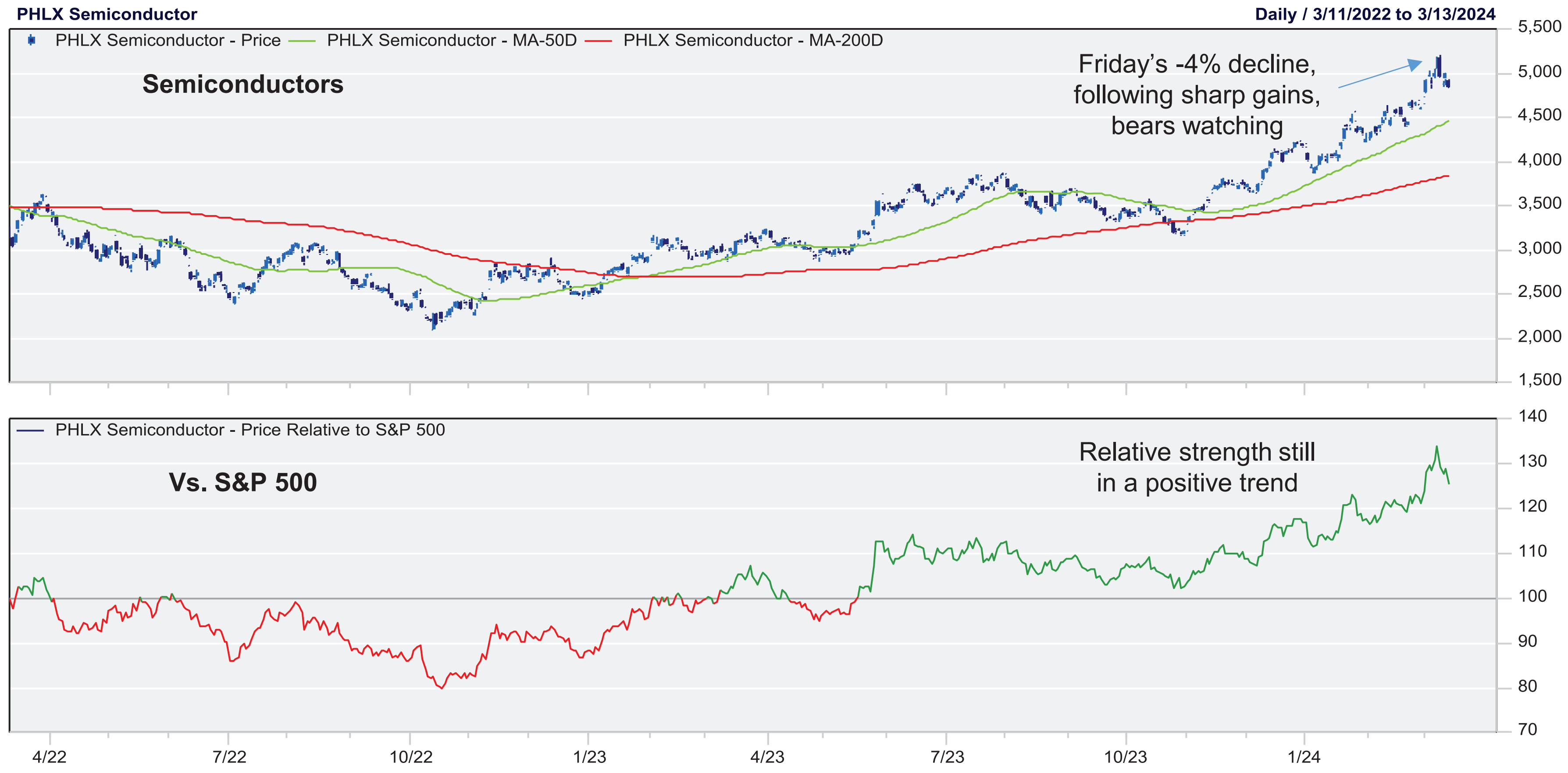
Intermediate-term technical indicators are supportive of a positive bias to market trends.

Near-term areas to watch- Friday's reversal at resistance (5175). Additionally on the weekly S&P 500 chart, RSI is near the most overbought in over 4 years, price is 12% above the 200 DMA, and there are indications of indecisiveness in the advancing volume.

In terms of support, the 20 DMA has acted as support since October and will be the first level to watch. The upward-trending price is currently 5084. Additional support at 4953 (50 DMA), ~4800, and ~4600.

Semiconductors

The semiconductors have been one of the strongest areas of the market over the past year and, given their widespread uses throughout the economy, are typically a good indicator for market momentum. That is why Friday's -4% decline offers some pause, particularly following a +65% rise since October 2023 lows (+150% since October 2022 lows). Price trends and relative strength remain positive, but the sharp decline from an elevated level bears watching- as it could be an initial signal of a consolidation phase.



Source: FactSet (M24-442840)

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