April 22th, 2024

VERED WEALTH MANAGEMENT (CANADA) COMPANY LIMITED

Weekly Market Guide

Equities are undergoing a bit of a pullback to begin Q2. The S&P 500 index is -4.3% off its highs, along with the Russell 2000 -8.5%, Nasdaq Composite -4.5%, and Equal-Weighted S&P 500 -6.2%. **Middle East tensions played a role, but the big catalyst has been higher inflation and interest rates.** For example, the US 10-year Treasury yield has risen to 4.69% from 4.2% since March end, due to a third consecutive "hot" CPI report and a consequential delay in expected Fed rate cuts.

Is this a normal pullback or something worse? Our opinion, normal pullback.

Areas of focus:

- **Inflation/Fed/Interest Rates-** The market was ahead of itself as it relates to Fed cuts and is now in an adjustment phase. Inflation looks to still be headed in the right direction. However, it is a risk if inflationary reports remain stubbornly high. PCE- the Fed's favored measure of inflation- comes on 4/26 (consensus estimate is a moderate 0.3% m/m).
- **Macro-economy-** The economy is in decent shape. March retail sales were strong (maybe aided by an early Easter) and industrial production was better. Q1 GDP gets reported next week with a 2% q/q consensus estimate (following 3.4% in Q4).
- **Middle East-** As of now, the market does not seem overly concerned. Nonetheless, geopolitics are a wild card and can cause volatility.
- **Earnings-** Typically, the bar is set low enough to allow for favorable overall results. Given economic strength in Q1, the odds favor a good quarter. Our attention will center more on company expectations and guidance for the balance of the year. It's still early, but the tune from several companies (across consumer, banking, industrial areas) has contained some caution.

The recent technical breakdown, in conjunction with the timing shift for Fed rate cuts, raises the odds that the market is in pullback mode. The S&P 500's break below its 20- and 50-day moving average signals slowing momentum. Five heavy downside-volume days since the market peak are evidence that investors are willing to book some profits. In the short term, several indicators are near levels that suggest a relief bounce soon. However, pullbacks are often a process, and our best guess is that the lows of this decline have not been seen yet. We view potential S&P 500 downside as ~4750 (would be a -10% decline from the peak and another -5% from current prices).

Absent a quick reversal on inflation/Fed action, equities will probably become more range-bound. Honestly, we do not view this as a bad thing following the +28% rally from late October through March. **Pullbacks are a normal market occurrence, can offer healthy digestion (following overbought stretches), and create opportunity.**

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	0.3%	11.5%
S&P 500	5.9%	22.1%
S&P 500 (Equal-Weighted)	1.2%	10.2%
NASDAQ Composite	5.7%	30.9%
Russell 2000	-2.9%	10.5%
MSCI All-Cap World	3.5%	14.9%
MSCI Developed Markets	0.3%	4.6%
MSCI Emerging Markets	-1.4%	0.9%
NYSE Alerian MLP	6.6%	19.6%
MSCI U.S. REIT	-8.9%	0.6%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Communication Svcs.	15.8%	9.3%
Energy	12.8%	4.1%
Information Technology	9.1%	29.8%
Industrials	6.9%	8.8%
S&P 500	***5.9%***	-
Financials	5.2%	12.9%
Materials	3.6%	2.4%
Consumer Staples	2.3%	5.9%
Health Care	1.6%	12.1%
Consumer Discretionary	-0.1%	10.3%
Utilities	-1.0%	2.2%
Real Estate	-10.6%	2.0%

Source: FactSet

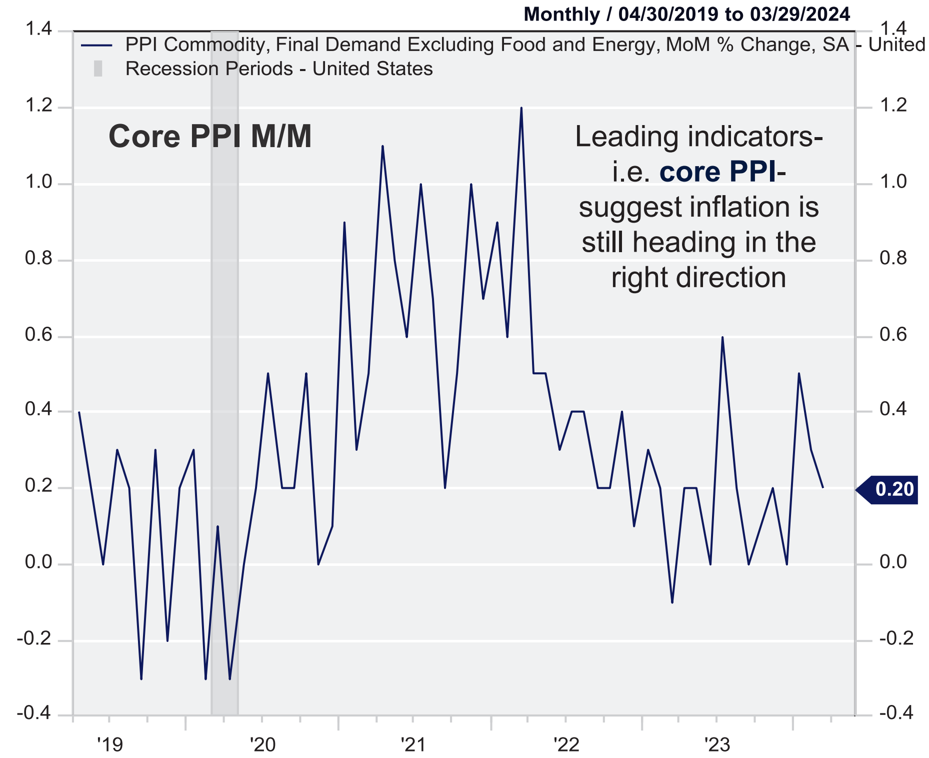
Macro: US

Overall, the economy continues to perform well. March retail sales beat estimates significantly, as the control group rose +1.1% m/m (vs 0.4% est.) on top of 0.5% in positive revisions to the prior two months. An early Easter possibly aided the report (i.e. e-commerce rose 2.74% m/m), but nonetheless this reflects healthy consumption. Strong retail sales and better industrial production (which rose 0.4% m/m in March) should support healthy Q1 economic growth (Q1 GDP is reported next week).

Additionally, following the “hot” March CPI report, it was encouraging to see March PPI come in at just 0.2% m/m. The next major inflationary report to monitor is PCE (the Fed’s favored measure of inflation) which is reported on 4/26- the consensus estimate is a moderate 0.3% m/m.

Event	Period	Actual	Consensus	Prior
Continuing Jobless Claims SA	03/30	1,817K	1,800K	1,789K
Initial Claims SA	04/06	211.0K	215.0K	222.0K
PPI ex-Food & Energy SA M/M	MAR	0.20%	0.20%	0.30%
PPI ex-Food & Energy NSA Y/Y	MAR	2.4%	2.3%	2.1%
PPI SA M/M	MAR	0.20%	0.30%	0.60%
PPI NSA Y/Y	MAR	2.1%	2.2%	1.6%
Export Price Index NSA M/M	MAR	0.30%	0.35%	0.70%
Import Price Index NSA M/M	MAR	0.40%	0.45%	0.30%
Michigan Sentiment NSA (Preliminary)	APR	77.9	79.7	79.4
Empire State Index SA	APR	-14.3	-7.0	-20.9
Retail sales ControlGroup SA M/M	MAR	1.1%	0.40%	0.30%
Retail sales Ex AutoFuel SA M/M	MAR	0.95%	0.30%	0.49%
Retail Sales ex-Auto SA M/M	MAR	1.1%	0.50%	0.60%
Retail Sales SA M/M	MAR	0.70%	0.40%	0.90%
Business Inventories SA M/M	FEB	0.40%	0.40%	0.0%
NAHB Housing Market Index SA	APR	51.0	51.0	51.0
Building Permits SAAR (Preliminary)	MAR	1,458K	1,515K	1,523K
Housing Starts M/M	MAR	-14.7%	-2.7%	12.7%
Housing Starts SAAR	MAR	1,321K	1,480K	1,549K
Capacity Utilization NSA	MAR	78.4%	78.6%	78.2%
Industrial Production SA M/M	MAR	0.40%	0.40%	0.40%

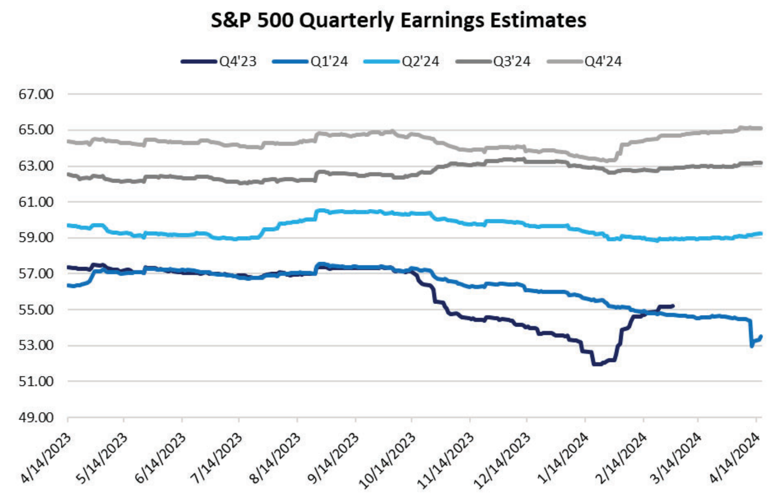
Source: FactSet



Q1 Earnings Season

Q1 earnings season is in its early stages, kicking off last Friday with the banks. Typically, the bar is set low enough to allow for favorable overall results. And given economic strength in Q1, the odds favor a good quarter. This has been the case so far with 70% of companies beating earnings estimates for a 10.3% aggregate surprise.

Our attention will center more on company expectations and guidance for the balance of the year. It's still early, but the tune from several companies (across consumer, banking, industrial areas) has contained some caution. Along with macro volatility, this is contributing to weak price reactions on average, i.e. the majority of reporters have traded lower by an average of -1.6%. Earnings season ramps up over the coming weeks with 223 S&P 500 companies reporting by month-end.

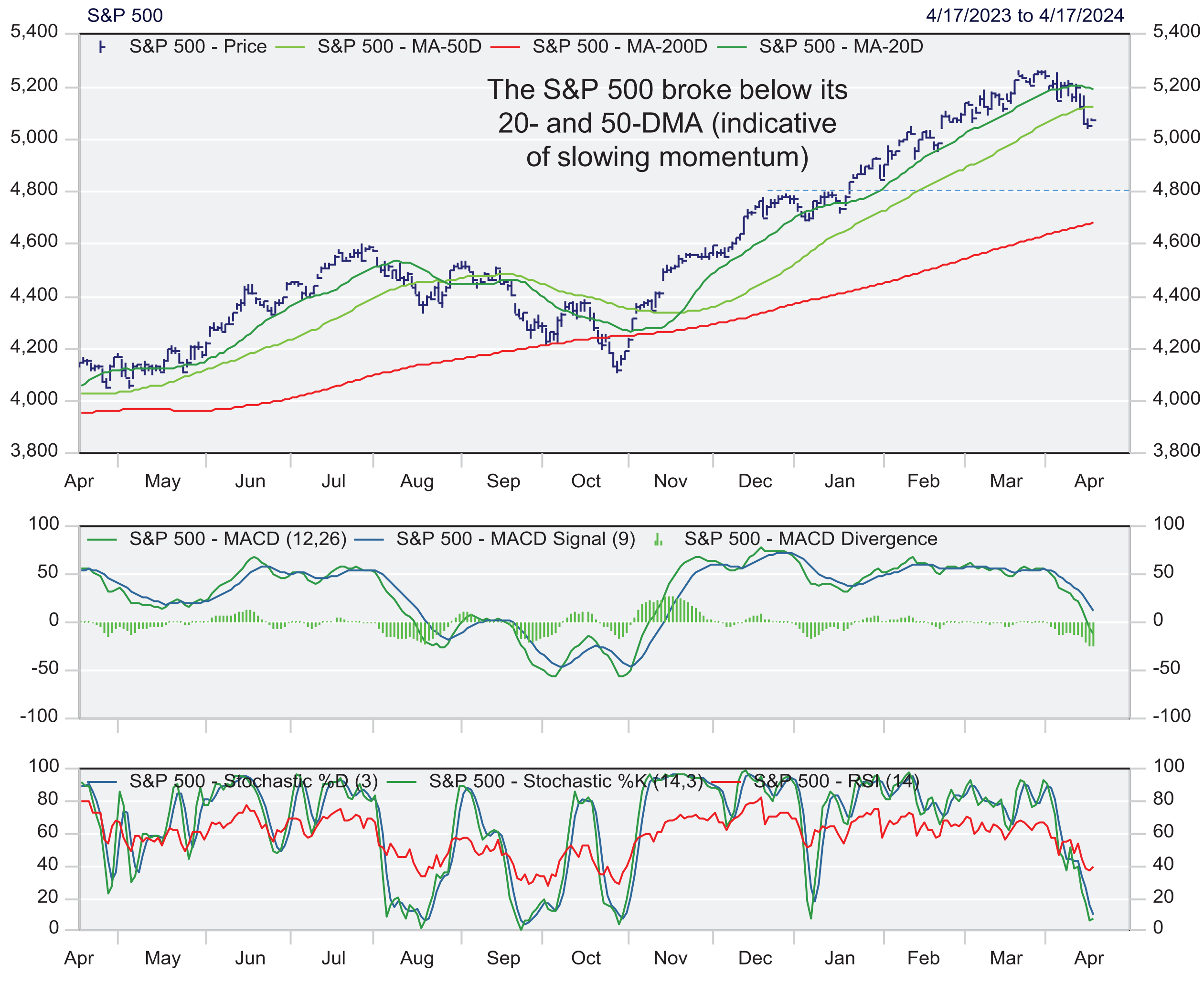


Forward estimates drifting higher ahead of Q1 earnings

	% Q1 Est. EPS Growth		% EPS	Est. Chg Since 12/31/23			Avg 1D Price	3-Day	YTD	2024 EPS	2025 EPS	P/E	
S&P 500 Sector	Y/Y	Q/Q	Surprise	Q1'24	2024	2025	Reaction	Reaction	Return	Growth	Growth	2024	2025
S&P 500	**1.9**	**-3.1**	**10.3**	**-4.5%**	**-0.7%**	**0.5%**	**-1.3%**	**-1.6%**	**5.47**	**10.7%**	**14.1%**	**20.92**	**18.34**
Communication Services	25.6	-5.0	-	2.0%	2.5%	3.0%	1.8%	1.8%	15.62	17.9%	13.9%	19.55	17.16
Information Technology	19.9	-12.7	11.8	1.1%	1.7%	3.0%	-	-	8.13	17.6%	17.8%	28.43	24.14
Financials	7.5	40.7	12.4	3.8%	1.2%	1.0%	-1.3%	-1.6%	5.24	12.6%	11.3%	15.11	13.57
Consumer Discretionary	14.7	-10.3	19.4	0.1%	0.7%	-0.3%	-9.2%	-12.4%	-0.61	11.8%	15.8%	26.01	22.46
Health Care	-24.8	-11.6	2.9	-24.0%	-6.0%	-1.4%	-0.2%	0.5%	1.41	10.2%	17.8%	19.64	16.67
Utilities	20.6	11.7	-2.9	-2.4%	-0.2%	0.6%	-	-	-0.35	8.8%	8.4%	15.71	14.49
Industrials	-1.8	-17.0	4.1	-7.9%	-1.9%	-0.9%	-0.6%	-0.4%	6.09	7.8%	15.3%	21.77	18.88
Consumer Staples	-0.6	-6.1	11.5	-4.3%	-1.2%	-1.5%	1.3%	-2.4%	2.38	4.5%	8.1%	19.98	18.48
Real Estate	1.6	-1.4	-	-0.7%	0.2%	0.2%	-5.5%	-5.5%	-10.64	1.3%	5.8%	15.64	14.79
Materials	-26.5	-1.0	-	-15.7%	-5.0%	-2.3%	-	-	3.83	-2.2%	15.6%	21.17	18.31
Energy	-23.8	-13.1	-	-10.8%	-4.9%	-2.3%	-	-	12.78	-3.9%	9.2%	13.05	11.95

Source: FactSet

Technical: S&P 500



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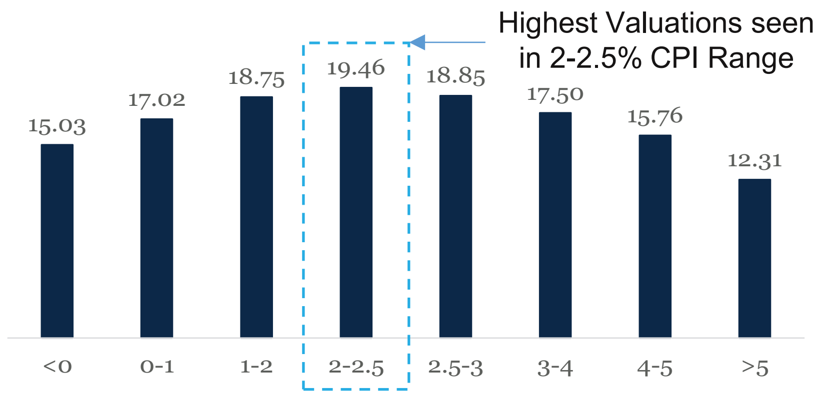
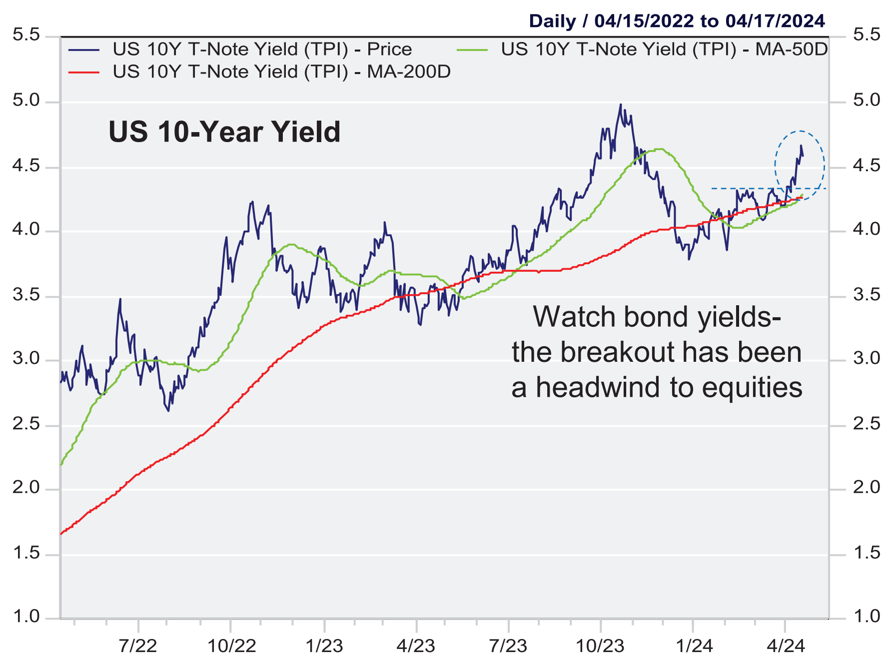
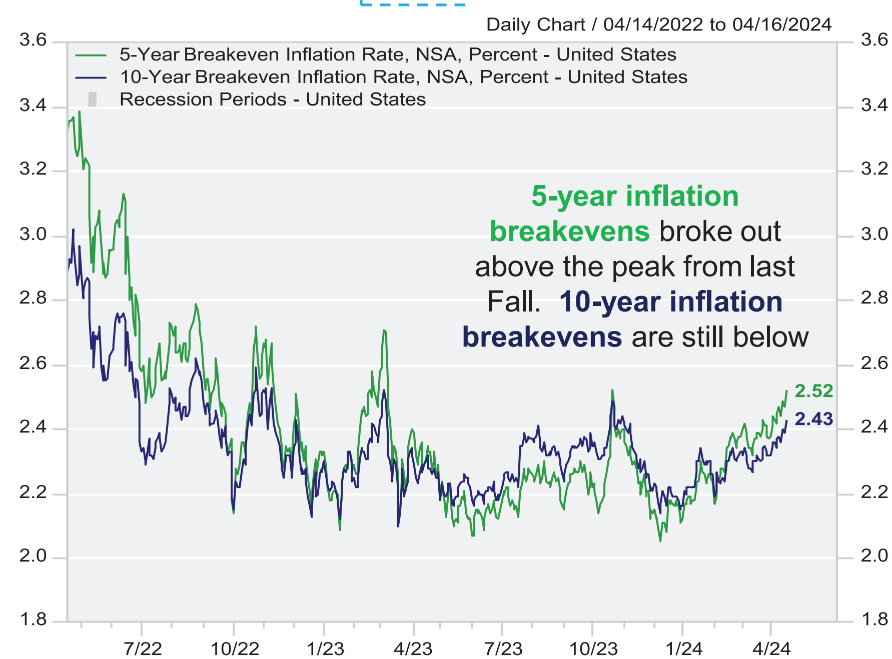
Inflation & Bond Yields

Bond yields broke out to begin Q2 with the US 10-year Treasury yield up to 4.69% from 4.2%. Healthy economic growth has been a contributor, but the bigger reason was the third consecutive “hot” inflation report in March. 5-year inflation breakevens broke out above the peak from last Fall, which is delaying the timeline for potential Fed cuts and causing some market anxiety. 10-year inflation breakevens are still below their peak, suggesting investors are not as worried about inflation over the longer-term. We still believe inflation is on a downward path, albeit “bumpier” than desired (in part due to economic strength). Nonetheless, the path of inflation and bond yields will remain key market influences ahead, given the highest valuations are seen when CPI is in the 2-2.5% range.

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







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