

MARKET REVIEW

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MARKET COMMENTARY

With stock markets near all-time highs, the discovery of the new COVID variant Omicron caused turmoil and a pullback, albeit relatively contained and brief for now. Markets are expected to remain volatile until more definitive information is available regarding vaccine effectiveness, mortality rate and transmissibility of the new variant strain. Mortality rate is the key variable as that is what will ultimately drive government policy.

From a glass half full perspective, the new strain was detected early, and studies so far indicate that while it is more contagious, it may be milder. Booster shots of existing vaccines appear to help neutralize Omicron and will provide time for the development and deployment of a targeted vaccine. Antiviral pills and therapeutics remain effective tools to prevent serious illness. Social distancing behaviour is also more ingrained than when the health crisis first hit which should help slow transmission.

The other key development for financial markers was the acknowledgement by central bank officials that elevated inflation will persist longer than originally projected and alluding a faster pace of tapering may be warranted. Notwithstanding, monetary policy remains broadly accommodative and unlikely to move into hawkish territory especially given the uncertainty surrounding the latest COVID variant.

While the rate of economic growth will moderate next year, it remains positive. Similarly, corporate earnings are expected to improve as supply disruptions ease and from the need to replenish depleted inventories. We maintain our constructive outlook for equities.

Christine Poole, MBA, CFA