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MARKET REVIEW

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WATCH EPISODE

MARKET COMMENTARY

Consumer spending is a major source of economic growth. In the U.S., consumer spending accounts for more than two-thirds of economic activity and in most industrialized economies, consumer spending accounts for about 60% of GDP.

Household savings accumulated during the pandemic and a robust employment situation are cushioning the impact of higher prices for goods and services. The apparent shift in the overall consumer wallet towards products associated with social and travel related activities means elevated prices on household goods are likely behind us. Price discounting to clear excess inventories of unwanted goods should help ease inflation in the months ahead.

The pandemic likely accelerated consumer bifurcation in North America. White collar jobs were able to freely pivot to remote work, wealthier households saw the value of their assets appreciate, and savings were disproportionately concentrated among higher income households. This cohort may well turn out to be the mainstay that allows the Fed to engineer a soft landing.

Until inflation is demonstrably on the downswing, the U.S. Fed is expected to fight back aggressively with tighter monetary policy, especially with unemployment near historical lows. The hawkish tone of many central banks globally is driving up interest rates and clouding the corporate profit outlook.

Valuation multiples for the broad indices have receded closer to longer term historical averages. Negative future earnings revisions, however, may contribute to further downward pressure on stock prices.

Investors are encouraged to look past the volatility and adhere to a strategy of owning a diversified portfolio consisting of financially strong, profitable companies.

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