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MARKET REVIEW

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WATCH EPISODE

MARKET COMMENTARY

The outlook for the global economy continues to improve led by the United States where easing of pandemic restrictions and a more broad-based reopening has occurred more rapidly than in other developed countries. The donation of excess vaccines by the G7 countries to low-income countries is necessary to overcome the pandemic across the world, fully eliminate border restrictions, and set the stage for a global synchronized recovery.

While inflation has picked up materially in the past two months, a handful of categories most closely tied to the reopening of the service sector and supply chain bottlenecks have accounted for an outsized share of the rise. Many households have amassed extra savings over the past year and for now, consumers are willing to pay more for goods and services as they come out of hiding.

In the amidst of the inflation spike, the reaction from the bond market is an interesting observation with the 10-year U.S. Treasury bond yield receding to 1.50% from a peak of 1.74% at the end of March. Whilst the retracement is supportive that the current inflationary spike is transitory, it also implies slower growth ahead.

The U.S. jobs recovery has moderated recently, likely reflecting ongoing health concerns and enhanced supplemental federal pandemic unemployment benefits. With some market pundits suggesting the possibility of wage inflation as a fallout, business investment toward labour-saving technologies is resulting in higher productivity which will act as an offset. Job seekers should return to the workforce as government support programs expire and education systems fully reopen.

The outlook for equities remains favourable driven by the ongoing recovery from the pandemic, accommodative monetary and fiscal policies, and positive corporate earnings revisions. Portfolios should be diversified across sectors and consist of both financially sound income and growth stocks.

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