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MARKET REVIEW

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WATCH EPISODE

MARKET COMMENTARY

The broad stock market indices continue to move higher driven by better than expected third quarter corporate profits. Companies are offsetting higher input and labour costs by implementing price increases and with overall productivity improvements. Demand for goods and services remains robust albeit supply constraints are in some cases hampering the ability to meet demand.

Widespread reopening from the pandemic should progress as vaccination extends to children and new highly effective anti-viral treatments are approved. Furthermore, rising vaccination rates and therapeutics should help reduce unplanned factory closures and port disruptions within the major trading partners of the United States.

Admittedly, the supply chain bottlenecks are taking longer to resolve resulting in more persistent inflation. However, the situation should progressively improve, with many of the most impacted companies expecting the issues to be resolved by the second half of next year. Anecdotal evidence suggests the worst is likely behind us.

Labour force participation is expected to rise as health concerns and childcare issues recede in conjunction with the expiry of government unemployment programs and dwindling pool of savings. With the labour participation rate and employment situation still below pre-pandemic levels, the U.S. Fed is wary to overreact to what it deems to be temporary elevated inflation readings and potentially hurting the economy over the long term.

In addition, the average inflation targeting framework that the U.S. Fed introduced in mid-2020 calls for the Fed to be less sensitive to an inflation overshoot and allow inflation to stay higher for longer to make up for the undershoot in the past years. As employment recovers to the pre-COVID level, interest rates will invariably move higher. So long as the latter is accompanied with a growing economy and continued corporate profit growth, equities have further room to appreciate.

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