

MARKET REVIEW

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MARKET COMMENTARY

The dual impact from the continued spread of the Delta variant and the recent expiration of fiscal income-support programs is dampening U.S. consumer confidence and poses a potential overhang on household spending. While spending may moderate in the near-term, households are to be in good shape to support the recovery with personal income excluding government transfers above its pre-crisis level and significant excess savings accumulated since the crisis started. Consumers have exhibited a high propensity to return to social and travel-oriented activities when allowed.

Despite rising case counts, governments seem unwilling to impose similar onerous restrictions that locked down economies last spring. Instead, alternative actions to manage the virus include vaccine passports, vaccination mandates from the private sector and incentives to overcome vaccine hesitancy.

The job situation is expected to continue to improve as fiscal support programs expire and job openings continue to climb. With employment remaining well below pre-pandemic levels, central bank policies should remain broadly accommodative. Inflation is the wildcard that may cause monetary policy to deviate from its current path. The consensus view from central banks is that the surge in inflation is transitory. Encouragingly, the monthly rate of increases has slowed recently and remain largely contained to a handful of categories most closely tied to the reopening of the service sector. Inflation should steadily subside as the base year effect passes, consumer spending decelerates to a more normalized rate, and supply bottlenecks begin to ease.

While the resurgence of COVID is dampening growth expectations this year, GDP growth rates in Canada and the U.S. remain above trend. Corporate balance sheets are strong and with the rebound in profits and confidence, companies are investing to increase productivity and grow their businesses. Shareholders will also benefit from improved profits through increases in share buybacks and dividends.

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