

MARKET REVIEW

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MARKET COMMENTARY

Significant monetary and fiscal policy support combined with the swift development of several approved COVID-19 vaccines have resulted in a stronger than expected economic rebound. The wide disparity amongst countries on vaccination rates means the global recovery maybe somewhat uneven initially albeit vaccine availability and logistics will eventually be resolved leading to a more synchronized pace.

The Biden administration has taken decisive actions to provide additional sizeable stimulus measures and ensure a timely vaccine rollout. A rising and steepening U.S. Treasury yield curve is signaling a strengthening economic outlook. The coincidence of pent-up demand as the economy reopens and supply chain bottlenecks suggests elevated inflationary pressures over the near term, especially in comparison to depressed levels a year ago. Over the longer term, supply chains will re-balance and other factors such as demographics, increasing adoption of technology and automation in business processes, and historically high fiscal deficits should keep inflation relatively contained.

The improving corporate profit outlook is supportive for equities. Undeniably, equity markets already reflect to some degree the improvement with 2021 consensus earnings per share (EPS) for the S&P/TSX and S&P500 companies now expected to exceed reported 2019 EPS. Corporate earnings are strongly leveraged to economic momentum and correlated with industrial activity, both of which are on a robust upswing. As well, excess household savings bodes well for a consumer-led recovery in the services sectors when economies reopen.

Consensus forecasts 24% year-over-year Q1/21 EPS growth for the S&P500 companies, accelerating to over 50% in Q2/21 and then moderating in the second half of the year, for an overall annual EPS growth rate of 26%. Meeting expectations will be a key catalyst for further stock price gains.

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