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MARKET REVIEW

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WATCH EPISODE

MARKET COMMENTARY

The timely rollout of vaccinations in the United States means the economy is reopening at a faster pace than originally anticipated just a few months ago. This is a welcome development. While many other countries have lagged in their respective rollouts, as supply availability increases and vaccine rates rise, a more synchronized global recovery will unfold.

The material uptick in inflation recently to levels not seen in many years is concerning, however it is the sustainability of elevated inflation that will ultimately influence monetary policy. The U.S. Federal Reserve expects higher inflation in the near-term due to year-over-year comparisons from a trough base as well as supply chain bottlenecks coinciding with a rebound in demand for goods and services as economic activity normalizes. Over the longer-term, the dual influence of waning pent-up demand combined with a restocking of inventories will eventually alleviate shortages and dampen upward price pressures.

A possible reacceleration in wages could also push the inflation rate higher. However, the U.S. labour market remains subpar with the unemployment rate at 6.1% and labour participation rate at 61.7%. Following the surprisingly weak hiring data, some Republican-led states are moving to reject the enhanced $300 per week federal pandemic unemployment payment set to expire in September on the belief that the supplement represents a disincentive to return to work. Should higher wage growth materialize, an offset could be stronger growth in labour productivity.

Volatility will continue to prevail in financial markets until there is more visibility on the durability of rising inflation. Notwithstanding, strengthening corporate profits is a tailwind for equites and pullbacks are opportunities to invest in financially sound, well-positioned companies.

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