Happy Thanksgiving!

Historically, September and October tend to be most volatile months on the investment calendar and this year is shaping up to be no exception. Global markets will likely remain volatile for the near term as we look forward to earnings season which may provide some positive catalysts leading into year end.

Looking back over the quarter we saw Canada in an election in September that seemed unnecessary to many voters and ultimately led to the status quo being maintained. As the results were confirmed, concerns around increased taxation under an extended mandate put a ceiling on the summer rally on the TSX.

Overseas, China was faced with a potential contraction of its real estate development sector following defaults by Evergrande, China's largest developer. Although contagion appears contained, the equity markets responded and sentiment began to turn negative. China also faced continued port closures and manufacturing shutdowns resulting from Covid-19 outbreaks. This led to a further slowing of exports and exacerbated supply chain issues for manufacturers around the globe. The impact was most heavily felt in the auto sector where plants faced increasing component shortages and had to shut some plants in-spite of demand continuing to be robust. We are currently seeing strong consumer demand across all sectors, however shortages are leading to price increases which impacts the rate of inflation. These conditions may be transitory as we are seeing some signs that goods are beginning to move.

Europe is facing challenges with their energy consumption. Scaled back coal production, due to carbon reduction goals, has forced a reliance on green energy initiatives that are not at the stage to meet the increased demand. The global economic slowdown also led to reduced energy production further exacerbating the problem. Ultimately the green initiative will take hold and we should move towards a cleaner and brighter future, however it will take some time to get there. In the meantime we need to find the balance that provides for global demand while being environmentally responsible. We remain hopeful that this will occur as the technological advances we are seeing with existing industries lead us toward greater innovation and the birth of new sustainable environmentally conscious economic development.

The United States is not immune from these global challenges and are dealing with the impact of an increasingly dysfunctional government. Politically motivated brinkmanship almost shut the government down over the need to increase to the spending limit. It appears that the decision has been put off until December and the markets are responding positively. The challenge has not been solved - it has merely been put off. With more time, however, it appears that cooler heads will prevail. Major spending bills on infrastructure and social infrastructure, which were designed to push economic recovery in a post Covid America, appear stalled as Democrats fight amongst themselves. Ultimately these bills will likely move forward with modifications.

The U.S. federal Reserve remains dovish and continues to signal that interest rate rises will be gradual. It is important to note that the system remains highly accommodative and will likely remain so, especially in a time of uncertainty. Although higher interest rates tend to dampen equity performance, dividend yields are at historically high premiums to bond yields. This should help maintain the equity bias until bond yields rise to become more competitive. If the economy continues to grow, increased profitability, dividend hikes and share buy backs should maintain corporate valuations for the foreseeable future.

We remain cautiously optimistic about the rest of the year with an eye to short term volatility. We are seeing a rotation away from the higher growth technology and speculative stocks that propelled the markets out of the pandemic lows towards the more cyclical sectors. Financials, energy, consumer staples, materials and industrials should continue to perform and provide income for investors.

As always if you have any questions or just want to touch base we are just a phone call or e-mail away.

Have a great fall season,

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