We hope that you are well and looking forward to the fall season.

The markets are looking for direction as we approach the fourth quarter earnings season. Although equity markets hover at or near all-time highs many investors remain cautious. Some of this is seasonal as the Autumn tends to be a slow time for equities. We have seen sentiment and economic data begin to deteriorate in recent weeks, however, the markets have continued to remain buoyant. This is likely because we are entering a “bad news is good news” phase in the market cycle which allows the central banks to remain stimulative with monetary policy. The U.S. Federal Reserve is looking to taper the bond purchase program that was necessary to fend off a deep recession at the onset of the pandemic. This program appears no longer necessary as the economy has recovered well and continues to grow. The Federal Reserve Chair made it clear that rate hikes are not in the near future and will be linked closely to full employment which remains elusive.

In spite of the weaker than expected jobs numbers, we are seeing companies having difficulty hiring employees on both sides of the border. This could create wage pressure that will increase corporate costs and may muddy the inflation picture. Prices are rising and it remains to be seen if this is transitory. This needs to be monitored closely, however at this time it appears that central banks will let inflation run above trend for some time before raising interest rates.

Supply chains continue to be a key area of focus with shipping costs rising into the fall season. Back logs of goods and inventories are at historic lows and it will take time to get back to normal after the global economy was all but shut down for a period of time in 2020.

We are seeing investors moving toward companies that have strong balance sheets and solid dividend history. This is likely because the fixed income markets remain tepid with very low returns making them a weak alternative to equities that are well capitalized and share their profits with shareholders. Corporate earnings remain strong, however, going forward they will likely begin to normalize, leaving behind the historic high numbers we have seen recently. That being said the projected numbers remain realistic and the possibility of upside surprises remain.

The consistent trend of “buying the dip” has been the norm recently. We have not seen a 10% correction in the TSX or S&P 500 in nearly a year, which is abnormal. We have seen sector corrections with drops in technology, energy, materials and financials pulling back at different times. Each of these sector drops has led to a rotation to others keeping the overall market buoyant. There are still trillions of dollars on the sidelines that will likely move towards equities on any pronounced weakness providing a floor. Share buy backs, takeovers and dividend increases have also kept sentiment positive.

The Delta variant remains the current wild card. Consumer confidence has been negatively affected by the new up-turn in cases on both sides of the border. There are signs that the variant may be approaching a peak in the United States as we struggle through our fourth wave. We will need to look closely at the U.S. numbers to give us an idea of where we are heading. Canada has responded better to getting vaccinated so we could see our fourth wave muted.

We remain cautiously optimistic as it is likely that we will be seeing lower interest rates for a prolonged period of time. The Delta virus and weakening economic data should keep monetary policy stimulative. We will look to take some profits and pare down overweight positions. Technology, financial, industrial and cyclical equities should continue to perform.

As always, if you have any questions or just want to touch base, please reach out. We are just a phone call or e-mail away.
We're here to help!

Have a great month and enjoy the change of seasons.

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