NATIONAL BANK FINANCIAL
WEALTH MANAGEMENT

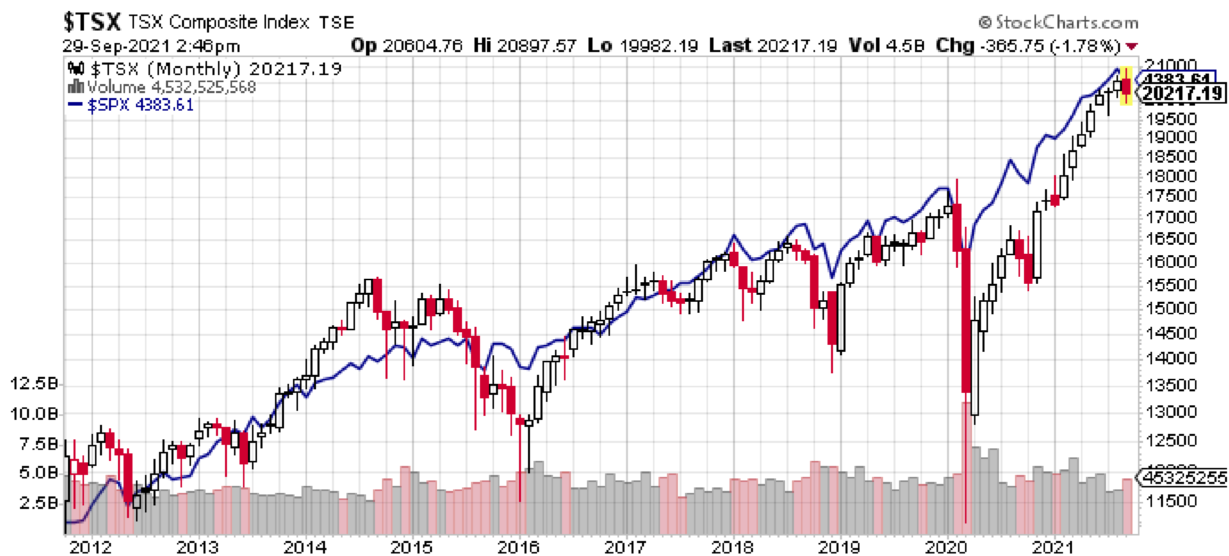
R HUNTER | WEALTH MANAGEMENT GROUP

Market Update October 2021

Economic expansion has been strong, coming out of the depths of economic lockdown last year. The stock market has mounted an impressive rally upwards, defying what technically, is often a historically weaker half of the calendar year from spring to fall.

That said, historically weak September and October are at least providing some intermittent volatility so far, with markets consolidating around <3%> from mid-September highs.

Year to date: TSX (Canada) +16%, SPX (U.S) +16.1%



There are two forces affecting the stock market right now.

Pent up demand by the consumer has been fueling market expectations and our chief economist feels that our stock market late last week was pricing in an expectation for 16% earnings growth.

Supply issues that can in part be linked to Covid-19 variants are the headwind to those earnings expectations. It might be a surprise to know that despite developing several of the most popular Covid vaccines in the world, the United States ranks 42nd globally for percentage of its population that is actually vaccinated – far behind Canada.

This ongoing tug of war could see markets finally consolidate (pull back) a bit should earnings expectations show evidence of slowing. What we have is a consumer with wealth that is being *restrained* in spending due to supply issues. Put another way, supply issues could be forcing the economy to slow down, while stretching out consumer demand.

The bad news is that this could temper earnings next year. The good news is that it could stretch out that spending demand for some time.

Further, while we have witnessed a huge spike in earnings growth, anticipate higher taxes from government pandemic spending, accelerating wage growth (labour shortage) and potential for the Fed to raise interest rates earlier than expected.

Inflation…

One could argue that supply chain related inflation is largely transitory from economy start up. Other price inflation like food can be attributed to a national drought this year.

Some of the strongest sectors this last year have been the financials, technology, energy and industrials.

I think we will see more of the same going forward though energy demand may cause it to rank higher in the list going into winter. **Pricing pressure for oil and natural gas is high** and rising right now. A number of our positions in the space are benefiting from these events.

You may recall the Royal Bank reporting $4.3 billion in income last quarter. This is in part, likely from reallocating loan loss provisions (2020) back to earnings (2021) and I believe we will see more of the same over the next few quarters. Furthermore, the current moratorium by OSFI (Office of the Superintendent of Financial Institutions) could be lifted soon, paving the way for potential dividend increases, stock buy backs or acquisitions.

Technology is really no longer a specific sector as technology itself seems to be infused into pretty much every sector these days. A current chip shortage is why you may have trouble getting the car you want right now. What is wonderful about technology is that it is constantly disruptive and in that, creates new growth.

Cybersecurity continues to be a challenge for both governments and business. It is the only sector within technology with negative unemployment and has quickly become a utility bill to enterprises versus a discretionary expense.

"Cybercrime has gone from being a hobby to a profession" – Nikesh Arora, Palo Alto Networks CEO

I have been looking at tax loss selling potential as we draw toward year end but the options given the market performance are very limited this year. Not a bad problem to have.

I am also looking at potential profit trims in more interest sensitive sectors while seeking entry points for new cash.

Over the next few weeks, we will see some political drama as the U.S. raises its debt ceiling. The U.S. spent $5 trillion over the last 18 months on the pandemic. U.S debt now equates to 125% of GDP. Canada has not printed so much money since the second world war. As we come out of the pandemic, spending and the resulting debt will eventually have to be addressed.

I hope you are enjoying fall! Remember, while our offices remain closed, we are a phone call away!

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of investments. Therefore, this report should be viewed as a reflection of my informed opinions rather than analyses produced by the Research Department of National Bank Financial.

Best,

National Bank Financial

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Sources: Stockcharts.com, NBF Economics, Dr. David Kelly, Chief Global Strategist, JP Morgan, Reuters, Globe & Mail

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