Capital Market Review

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The Week Ending October 15, 2021

Earnings stole the show and were a significant factor leading the S&P 500 Index to a week of positive returns. The week began in the red, but once companies started reporting their third-quarter earnings, sentiment quickly changed and led the S&P 500 Index to a weekly gain of 1.8%. Although inflation concerns, headlined by energy prices and supply chain issues remain, strong earnings reports show companies are adapting, and so far, earnings continue to grow.

As winter closes in, energy prices are rising. Last week a barrel of crude oil traded at its highest level in about three years. While this is positive for oil-producing companies' earnings, it could negatively impact consumer spending. September's retail sales were expected to struggle due to the Delta variant of COVID-19 but instead climbed higher. Part of the increase is due to higher prices, but earlier than normal holiday shopping could also influence consumers. As supply chain issues continue and many stores are struggling to keep popular inventory in stock, holiday spending could begin earlier than usual this year. Growing retail sales in September is a positive, but the trend through the fourth quarter will be an essential data point to watch.

Supply chain delays are not only influencing consumer behavior but also inflation. The Consumer Price Index was reported above 5% once again in September. One of the main forces to fight inflation are global central banks raising short-term interest rates. One of the notable banks yet to make a change to current policy is the U.S. Federal Reserve. While U.S. rates are not expected to rise anytime soon, a tapering to their monthly bond purchases is expected to begin before year-end. Some sources make tapering sound like a bad word and remind us of the 2013 Taper Tantrum, which was a negative catalyst for both stock and bond markets. However, all tapering means is less expansionary monetary policy. The Fed will continue buying bonds to support markets, just at a rate less than the current $120 billion per month, and they currently do not have plans to take monthly purchases to zero. So whenever tapering is discussed, remember the Fed is still very accommodative and actively involved in supporting markets.

Although inflation remains front and center in the headlines and by noticeable price increases while shopping, it is critical in these times that you do not make drastic changes to your investment portfolio. While some will consider changes to their bond allocation, or acquiring some popular inflation-fighting fund, the best inflation defense is equities. Marginal portfolio changes can be additive in this inflationary environment, but for the most part, your current equity investments will be the strongest portfolio defender.

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