Capital Market Review

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The Month Ending October 31, 2021

As markets limped to the end of September, many wondered what the fourth quarter had in store. Despite the continued supply chain issues, inflation worries, Federal Reserve uncertainty, and weaker than expected GDP growth, companies' earnings gave markets a catalyst to move higher and save the concerns for another day.

All it took was the beginning of corporate earnings season to reverse negative sentiment and send the S&P 500 Index to a 7% return for October and end the month at a record high for the 59th record close this year. Positive earnings reports have been strong across most sectors; in total, 82% of companies have reported better than expected results to date. Usually at the center of controversy, big banks began the reporting season with impressive results and built the momentum that ultimately led to the best month of 2021. Another sector consistently under public pressure is energy, and like banks, those companies had a strong quarter as the spot price of crude oil continued its 60% year-to-date gain. With oil demand increasing and supply not catching up quickly enough since pandemic-driven decreases, Exxon and Chevron produced their best quarters in years. Even consumer product companies see record revenues despite increasing costs. Nestle and Procter & Gamble announced price increases while also raising profit projections, saying they have not seen a decrease in demand as the global supply chain shortage and inflation pressures rise. Service-oriented companies are seeing much of the same. Chipotle is raising menu costs to offset labor and commodity price increases as they experience steady demand.

Although some companies say they are not experiencing difficulties from supply chain issues, we know this is not the case for all as it impacts most of us in our daily lives. Companies like Apple and Amazon posted weaker than expected earnings due to supply chain shortages. One difference between these two companies and those previously mentioned is the exceptionally high standards companies like Apple and Amazon need to meet. These companies are trading at elevated valuations after years of excellent performance. Even a slight change in messaging can send negative momentum through markets as they need continued strong results to justify that they remain worthy of expensive valuations. Growth stocks like Amazon and Apple have been the long-time market leaders and have regained leadership in recent months after value stocks led to start the year. Could we be seeing another reversal as supply chain issues have an outsized impact on recent winners and send the market to another value rotation?

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