Economic Commentary

Third Quarter 2021

Growth Concerns Rise Due To Delta Variant

The impact of the delta variant has dampened prospects for a quicker economic recovery. Many companies who were targeting a return to work following Labour Day have pushed back plans into the New Year. Unfortunately, as the North American vaccination rate appears to have plateaued, the unvaccinated population has put an undue strain on the health care system. This had led to further lockdowns and increased social distancing measures in an attempt to prevent a further spread of COVID and its variants.

Inflationary Fears Roil Global Markets

U.S. Federal Reserve Chair Jerome Powell has stressed that inflationary pressures are transitory and not of immediate concern. He states that upward pressure on prices is a result of supply chain bottlenecks and shortages which should abate once the economy returns to normal. However, he indicated recently that inflationary pressures due to these bottleneck effects have been larger and longer-lasting than anticipated.

Economic releases have been choppy, with month-to-month fluctuations evident. The housing sector has cooled off somewhat, however, price increases remain at record levels. North American labour markets consistently added new jobs, resulting in a continued decline in unemployment rates .

U.S. Fed Adopts More Hawkish Stance

The U.S. Federal Reserve adopted a more hawkish stance at its September meeting. The Fed prepared the markets for the potential to begin reducing its bond buying program by the end of this year. It is expected that the bond buying program will end by the middle of next year, resulting in a more aggressive reduction than in previous quantitative easing programs.

In addition, the Fed moved forward the potential date for the first interest rate hike. Interest rate projections by FOMC members now reflect the possibility that interest rates will start increasing as early as next year, compared to previous estimates of 2023. The Fed did stress rate hikes would not necessarily immediately follow the completion of the quantitative easing program .

Supply Chain & Labour Force Impeding Recovery

Global manufacturing has been impacted by supply chain bottlenecks and increased cost pressures due to factory shutdowns, particularly computer chip shortages out of Asia. In addition, higher energy prices are adding further inflationary pressures to the global manufacturing network. A mismatch in the labour force is also delaying a more robust economic recovery. Despite high unemployment numbers, companies are finding it difficult to hire skilled labour. Some individuals in lower-paying service jobs have decided not to go back to their previous jobs. Government wage subsidies have also contributed to some people remaining out of the labour force .

Equities Stabilize, Bond Yields Move Higher

Equity markets remained strong through early September before retreating to end the quarter. Bond yields moved slightly higher after rallying for most of the quarter. The belief that the Fed will scale back its bond buying program, in addition to moving forward the date for the first potential interest rate hike, had a dramatic impact on market direction.

Key Metrics

Indicator	Value	Chg Q3	Chg 1Y
S&P/TSX Composite	20,070.25	0.2%	28.0%
S&P 500 (USD)	4,307.54	0.6%	30.0%
iShares MSCI EAFE ETF (USD)	78.01	-1.1%	25.4%
USD/CAD	$ 0.79	-2.2%	5.0%
WTI Crude ($/bl))	$ 75.03	2.1%	86.5%
GoC 10Y Bond	1.51%	12 bps	95 bps
GoC Deposit Rate	0.25%	0	0
Cdn CPI YoY	4.1%	1.0%	3.6%
US 10Y Treasury	1.49%	2 bps	80 bps
Fed Funds Rate	0.25%	0	0
USD CPI YoY	5.3%	-0.1%	3.9%

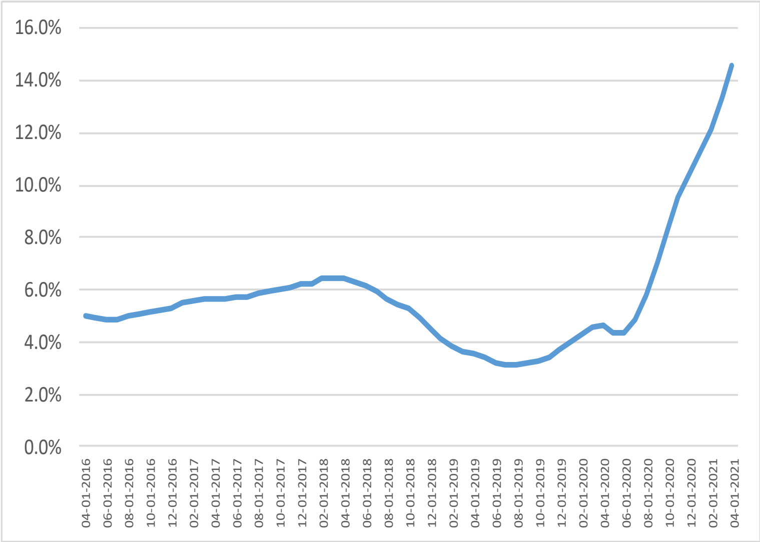
Top Themes

Battle continues between vaccine rollout and Variants of Concern

Fed's more hawkish stance eases markets inflation concerns

Housing markets providing support to N.A. economies

Top Chart: S&P/Case-Shiller U.S. National Home Price Index Y/Y



Source: Bloomberg, Lincluden