Cohen Johnstone Wealth Management Market Commentary
September 30, 2021

The global economy continues to recover from the pandemic-induced shutdown. Our assessment of the economic environment is broken down into cyclical and secular horizons. Sometimes these are at odds with each other, such as when there is growth expansion on a secular horizon but yet we experience a recession within that period, which is what happened in 2020. The fact that the recovery is happening in stages is helpful in pacing the inflation swell. Of course, policy change such as when the Federal Reserve will start reducing its bond purchases and whether President Biden's new fiscal spending proposals will become reality are also near-term influences.

The tone in equity markets remained positive in Q3, despite muted returns. In the latest quarter, the business cycle did not generate much that was new to investors. Supply chain disruptions, the Delta variant of Covid-19 and price bulges continue to be the main influences. The Canadian market remained amongst the top performers globally as the Canadian dollar advanced along with the strength in the Financials and Energy sectors. U.S. markets were generally flat in the quarter, although performance was better than most other developed markets. Regionally, China was among the weakest as a result of the increased oversight on various sectors, notably education and technology, in addition to concerns over leverage levels in the property sector. Japan was one of the stronger markets globally as a result of improvement in the containment of the Covid-19 pandemic and an upcoming change in leadership with Prime Minister Suga stepping down.

Bond markets saw modest gains as yields declined slightly; however, those gains were erased when yields increased in the last weeks of the quarter. Although the level of global economic activity is much more robust than last year, the pace has slowed in recent months, lending a slightly more positive tone to bond markets. Corporate bonds outperformed their government equivalents with demand remaining strong in this environment of low absolute yields.

As we head into the final quarter of the year, markets remain focused on several factors. First and foremost amongst those, as mentioned, is the prospects for inflation, and notably if it will prove transitory or more permanent. Should it trend towards the latter, this would have ramifications for equity markets as shorter duration equites, often characterized as more "value" oriented, typically perform better in a rising rate environment.

The second key debate centers around China, and notably if a single large property developer will have broader contagion effects to other sectors of the Chinese and global economy. Finally, while the ongoing fight against the Covid-19 virus has shown progress as vaccination rates have increased, the potential for new variants and additional waves through the winter months are further cause for concern.

While the future as always has uncertainty and risk management is critical, we continue to anticipate on-going economic growth and a continuing secular bull market.

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