

CHARTBOOK

Market Comment

Prepared by Ocean Front Wealth Management

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Market Comment

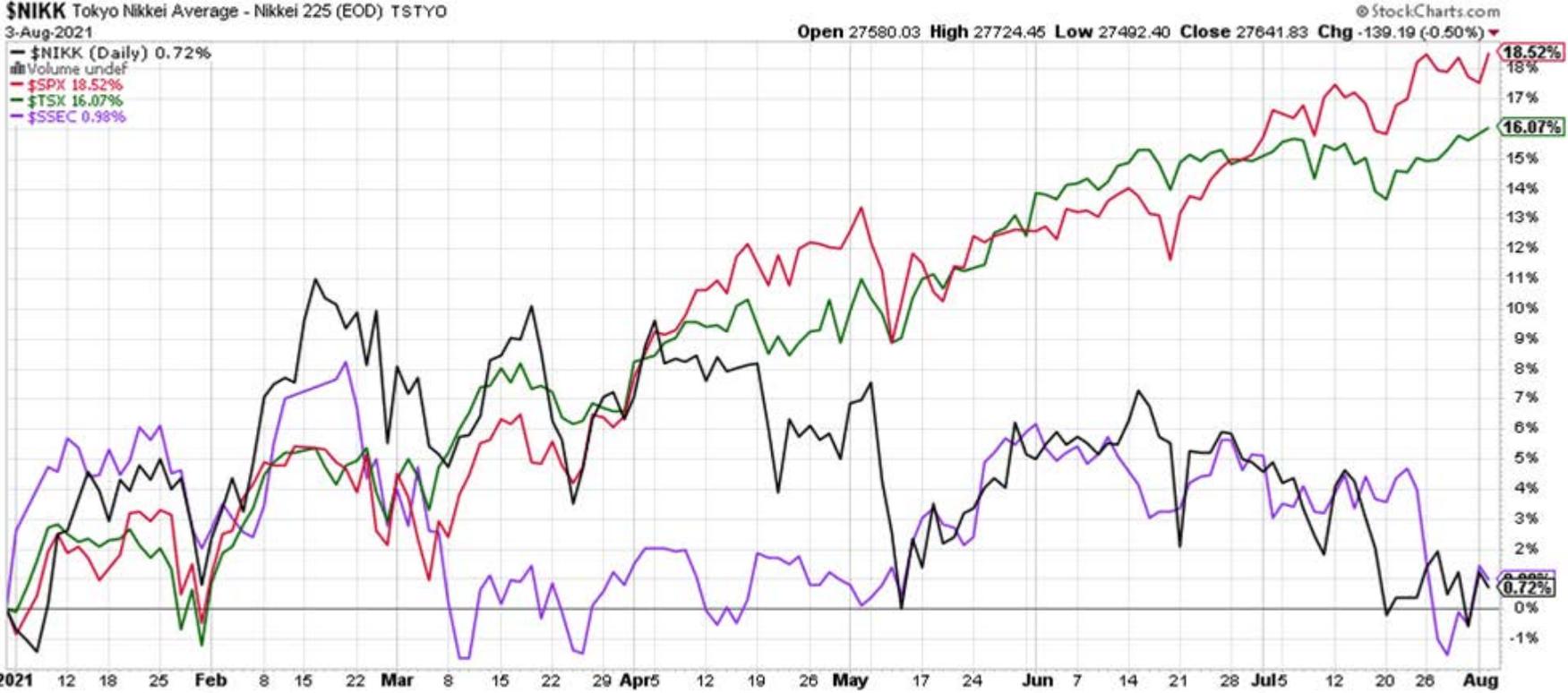
Stock markets around the world were mixed in July, as the TSX rose 0.8% and the S&P500 rose 2.4%. It was a tough month for some Asian markets, the Hong Kong Hang Seng fell -9.6%, the Chinese CSI300 fell -7.3% and the Japanese Nikkei fell -5.2%.

Inflation continues to be a hot topic and the subject of much debate on whether it will be transitory or more permanent. Renowned investor Howard Marks of Oaktree Capital weighed in recently to comment that while inflation is intensely studied and discussed because of its impact on interest rates, its causes and remedies are still not very well understood. Many central banks have targeted 2% inflation for years but have been unsuccessful in achieving it. The lowest unemployment rate in decades did not result in significant wage inflation (the well-known Phillips Curve economic theory).

Federal Reserve Bank of St. Louis President James Bullard even admitted how uncertain the situation is, saying that the economy “is in an environment where we’ve got a lot of volatility, so it’s not at all clear that any of this will pan out the way anybody’s talking about.” – *The Wall Street Journal, June 18*

It’s important to remember that while we can prepare for the risks that are present, it’s impossible to know what the future holds.

North American vs. Asian Stocks



North American stocks, represented here by the TSX and S&P500, have massively outperformed their Chinese (Shanghai Composite) and Japanese (Nikkei) counterparts YTD, by about 18% for the S&P500 and 15% for the TSX. One way portfolio diversification pays off is to reduce the risk of being overconcentrated in underperforming areas of the market.

5| Source: Stockcharts.com, Ocean Front Wealth Management

The Delta Variant Effect



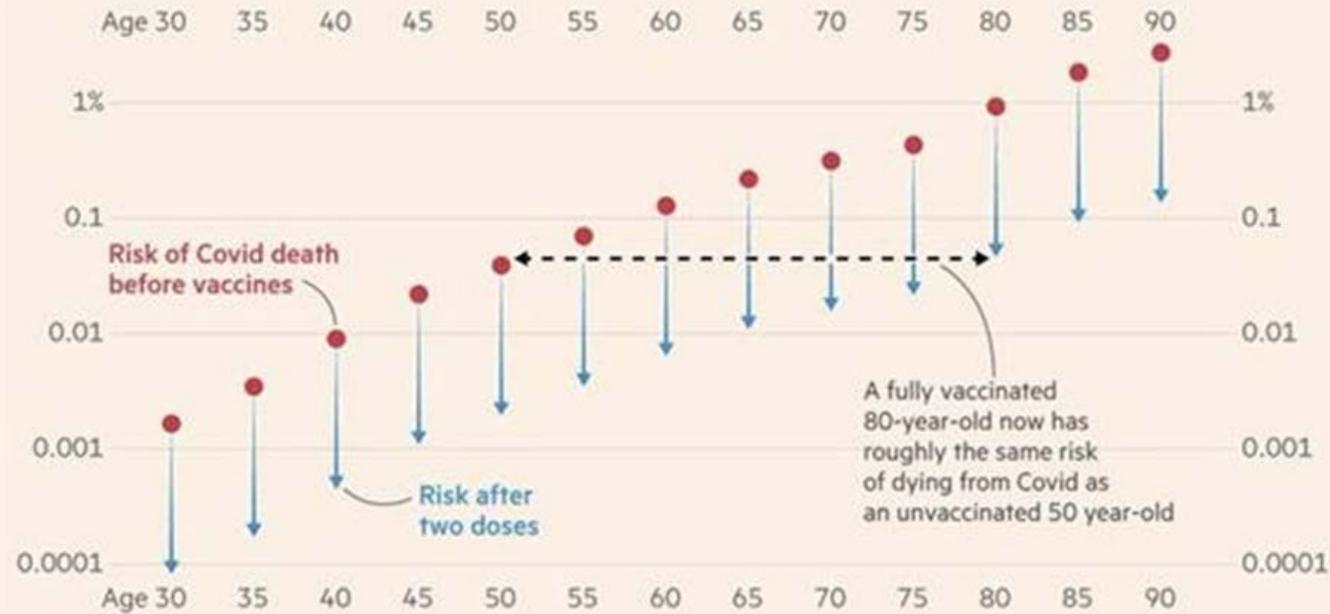
COVID cases are rising, largely due to the highly infectious Delta Variant. The US is experiencing over 90,000 new cases per day and over 400 deaths per day. The effect of vaccinations appears to be evident in this chart, as the last time cases were at this level in early 2021, there were around 3,000 deaths per day.

The Vaccination Effect



Vaccines have made Covid-19 far less lethal. A fully-vaccinated 80-year-old now has the same mortality risk as an unvaccinated 50-year-old

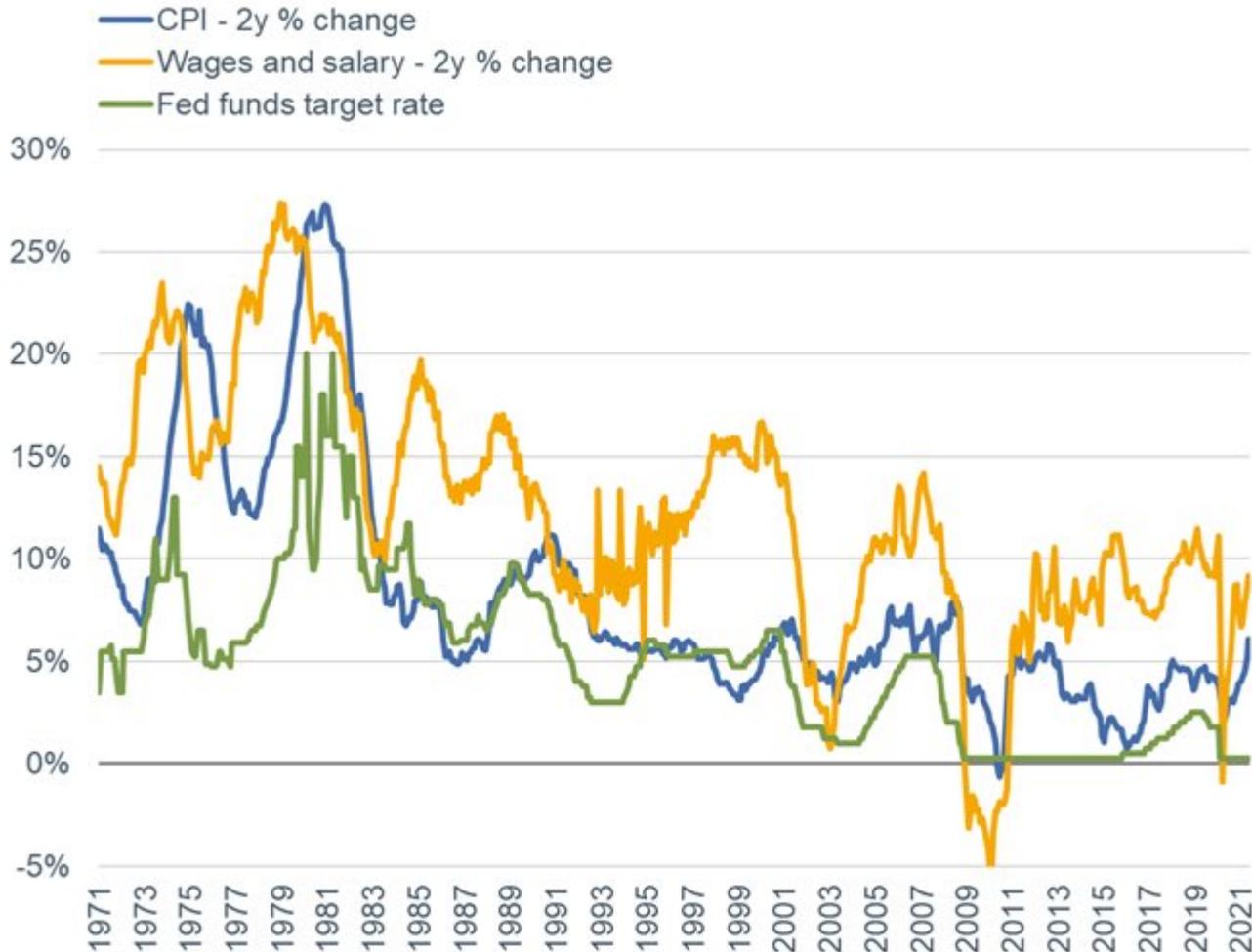
Risk of catching and dying from Covid* (log scale), by age group, before and after full vaccination



*Risk is the population fatality rate, e.g before vaccines roughly 1% of all 80-year-olds in England had died from Covid
Source: FT analysis of data from Public Health England
© FT

According to analysis from the Financial Times, a major benefit of vaccinations is their effect on reducing the deadliness of the virus. In their example, a fully vaccinated 80-year-old has a similar risk of death from the virus as an unvaccinated 50-year-old.

Watching for Wage Inflation



Source: Charles Schwab, Bloomberg, Bureau of Labor Statistics, as of 6/30/2021.

With so many reports of labour shortages, especially in the US, many are watching to see if employers begin increasing wages to entice workers to re-join the workforce.

Recently wages have risen, along with CPI inflation, but their rate of inflation is still below the highs of the past decade. It will be interesting to see if this trend persists. An increase in labour costs can really squeeze profit margins, especially for labour intensive industries.

New Job Postings



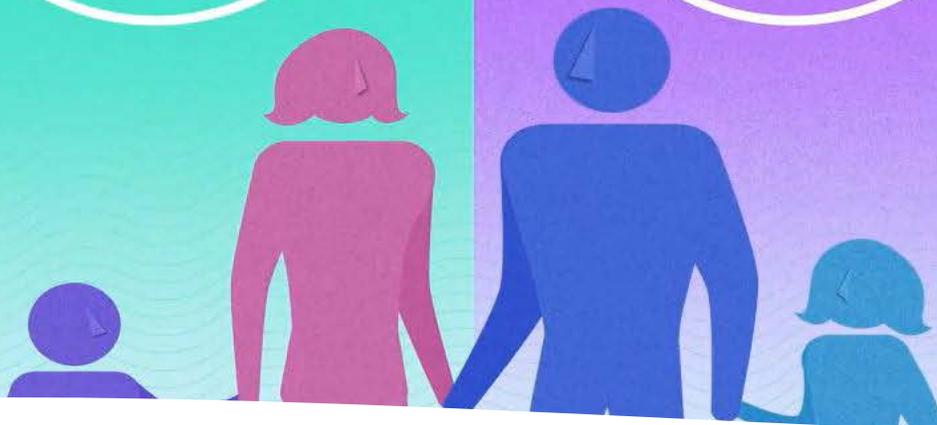
Source: Charles Schwab, Federal Reserve Bank of St. Louis (fred.stlouisfed.org), as of 7/23/2021. New postings are postings on Indeed for 7 days or fewer.

According to data on new job postings, the labour market supply tightened slightly over the past few weeks. Sustained wage inflation may require this metric to continue to rise or at least remain at a high level.

S&P500 Profit Margins



Operating margins for S&P500 stocks continue to grow, so inflation concerns (for labour or other inputs) haven't materialized here yet.



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