

Big Picture

U.S. Stocks Hit Pause Button as Inflation Reaches Three-Decade High

U.S. markets reached record highs on Monday, with modest gains for the Dow, S&P 500 and Nasdaq. Meanwhile, the TSX hit a record close for the third straight day, buoyed by cannabis stocks, which soared higher after reports of a Republican-led bill to legalize marijuana in the U.S. By Monday's close, the TSX had added 101 points. Also boosting sentiment was last Friday's passage in the U.S. House of a \$1-trillion infrastructure bill, after months of delay.

U.S. markets, however, retreated from record levels Tuesday, snapping an eight-day winning streak for the S&P 500. While all three U.S. markets recorded minor losses, the TSX inched up to another record high on Tuesday, led by more defensive sectors, such as utilities and consumer staples.

In economic news Wednesday, U.S. inflation hit a three-decade high in October, climbing at a 6.2% annual rate, as strong consumer demand and supply-chain shortages continued to drive higher prices. It was the fifth consecutive month that inflation has exceeded 5%. The core price index, which excludes food and energy, climbed 4.6% in October from a year earlier, topping September's 4% rise.

Rising inflation and the prospect of early rate hikes from central banks was bad news for North American markets. By Wednesday's close, the TSX lost 132 points, with the tech sector dropping more than 3%. In the U.S., the Dow dropped 240, while the S&P 500 and Nasdaq lost 38 and 264, respectively. However, it was a strong day for gold, which rallied in light of the inflation news.

It was mostly a bounce-back day for North American markets, as investors had time to digest Wednesday's inflation reading. The TSX climbed 120 points, buoyed the materials sector and rising gold prices, while the Nasdaq added 82 points, as key tech names rebounded. While the S&P 500 finished flat, the Dow was slightly off, dropping 130 points.

This morning, the U.S. Bureau of Labor Statistics reported Job Openings and Labor Turnover Survey (JOLTS) that were little changed in September at 10.4 million from August's figure of 10.6 million, but easing slightly from July's record high of ~11.1 million. Although vacancies have declined for a second consecutive month, they remain elevated compared to historical levels as workers, particularly in high-contact jobs, remain hesitant to return to the workplace over health and safety concerns or due to caregiver and childcare responsibilities. However, the combination of schools reopening and the expiry of federal enhanced unemployment benefits in early September, along with the diminishing impact from the Delta variant, may help attract people back to the workforce.

TSX Keeps Climbing, U.S. Markets Surrender Ground

For the four trading days covered in this report, the Dow dropped 379 points to close at 35,949, the S&P 500 surrendered 46 points to settle at 4,651, while the tech-heavy Nasdaq slipped 266 points to close at 15,705. In Canada, the TSX climbed 126 points to end at 21,582.

Strategy

Job openings were little changed

September was 10.4 million versus August's figure of 10.6 million, easing slightly from July's record high of ~11.1 million, according to the U.S. Bureau of Labor Statistics' Job Openings and Labor Turnover Survey (JOLTS). Hires and total separations were largely unchanged at 6.5 million and 6.2 million, respectively, while the number of people voluntarily leaving their place of employment rose to a fresh high of 4.4 million or 3%. Job openings rose across healthcare and social assistance (+141,000), state and local government excluding education (+114,000), and wholesale trade and information (+51,000 for each), while a downturn in openings was observed across education (-114,000) and other services (-104,000). Although vacancies have declined for a second consecutive month, they remain elevated compared to historical levels as workers, particularly in high-contact jobs, remain hesitant to return to the workplace over health and safety concerns or due to caregiver and childcare responsibilities. However, the combination of schools reopening and the expiry of federal enhanced unemployment benefits in early September, along with the diminishing impact from the Delta variant, may help attract people back to the workforce. This may be offset by the implementation of the vaccine mandate, which has forced businesses to let go of non-compliant employees, as well as industrial workers getting displaced due to supply bottlenecks weighing on production. The quits rate rising to a new high in September underscores the challenges faced by employers as workers appear to be more willing to leave their current place of employment in search of improved wages or working conditions. Businesses in turn have had to increase wages in an effort to attract and retain workers amid widespread labour shortages. While unit labour costs have risen significantly in recent months (+8.3% in 3Q21), real average hourly earnings remain in negative territory amidst elevated price pressures.

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