QUARTERLY COMMENTARY

AUTUMN 2021

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Bottleneck Blues

A few months ago, I decided I needed a new bookshelf, given that I was working from home most of the time. I went online to check options at various home furnishing retailers, to discover that many, many things I would have liked were out of stock, with no date as to when they would be available.

A friend of mine is renovating a house to turn it into a bed & breakfast. She is still waiting for the high-end dishwasher she ordered…a year ago.

Meanwhile, I recently received a breathless email from the Acura dealership where I bought my last car. It was promoting the latest model of my vehicle, suggesting I jump onboard and put my order in if I wanted a new one – because there are only 15 available in all of Canada!

And don't get me started about filling my gas tank… that electric vehicle that will be my next car might happen sooner than later – if I can find one, that is.

You no doubt have your own stories about product shortages, long wait times, not to mention exorbitant prices when you do find what you want. The global supply chain, which functioned well prior to the pandemic, has become choked, with demand increasing as economies begin to re-open, while concurrent pandemic lockdowns constrict delivery on the other side of the equation. The dearth of computer chips is a special problem, creating bottlenecks in manufacturing in everything from autos, cell phones, home appliances, and virtually everything that has a digital component.

A significant, and arguably unique aspect of the current supply chain problem, stems from labour imbalances: there remain higher than normal levels of unemployment in some areas, yet many businesses cannot find the help they need. Lower-paying, less secure jobs in retail, hospitality, transport, and shipping have been especially hard to fill. Some of this will be rectified with greater vaccination rates and less risk of lockdowns over the next year or two. (In Canada, our fully vaccinated rate exceeds 80%, yet, as of September 30, the global full vaccination rate was only 34%, up from 8% at the end of June). Yet, as re-opening continues, some whose employment was in the minimum wage, low security, service, and manual labour sectors may have re-evaluated their career options and decided that their efforts are worth more. They have found better-paying, more secure career paths. Nothing like a life-altering pandemic to focus the mind on what's truly important.

There are many theories on whether these imbalances are transitory or are a sign that the new normal is one of increasing demand chasing too little supply, causing an inflationary cycle. Central banks are hyper-focused on inflation, and if deemed to be not transitory, interest rate increases will follow.

Given that current interest rates are at historic lows, it is reasonable that central banks will eventually raise rates. The question is not so much if, but when will they rise, by how much, and how fast? While markets may react negatively to the suggestion of interest rates increasing, modest inflation (and a measured, gradual increase to rates) signals continued growth in the economy, increasing wages, and productivity growth over time.

The imbalances in global supply-chains will take some time to sort themselves out, but we expect that investors who take a long-term approach will be well served by remaining invested in equities (and overweight compared to fixed-income investments). Despite choppiness during late August through September, overall, the major markets are still well above where they started at the beginning of the year. For perspective, here are the numbers, as of September 30, 2021:

	YTD return	1 yr. return	3 Yr. return	5 Yr. return
S&P/TSX composite:	15.1%	24.5%	7.7%	6.4%
Dow Jones Industrial Avg.:	10.6%	21.8%	8.6%	13.1%
S&P 500:	15.9%	30.0%	16.0%	16.9%
NASDAQ:	12.1%	29.4%	21.5%	22.2%

With many parts of North America relaxing Covid-19 restrictions it would be easy to assume that the pandemic is firmly on its way out. While these are encouraging signs, it is important to remember that our products and services (and our investments) are globally connected, and as long as the virus continues to wreak havoc across the world, our markets will reflect this in varying degrees of volatility.

The message for investors remains: stay invested; hold a diversified basket of high quality companies that are in growth sectors, that are focused on sustainability, social responsibility and good governance factors. These are the companies that should help to protect and grow our portfolio, and lead us to a better, more prosperous future.

Now, I wonder how long before I can find that bookshelf….