



Update

Inflation Worries Fade as Delta Variant Surges

Since our last update, stocks have drifted somewhat erratically from their highs of two weeks ago. It's been nothing dramatic, with the S&P 500 and NASDAQ currently off a bit more than 2% from their record highs. A look at the internals of the indexes reveals a divergence among market sectors such as we've seen with the several "stealth" corrections of this year. For the trailing 4 weeks Financials, Health Care, Staples, Industrials, and the Materials sectors have experienced a moderate drawdown. Those outflows have found a home in Consumer Discretionary, Tech, Real Estate, Communications, and Energy names. The net result has been a benign retreat in the major averages that has left portfolios relatively unscathed.

The much-publicized surge of the Delta Variant can be given credit for this minor pullback along with the continuing inflation narrative and tapering talk. Ironically, the COVID resurgence is appearing to counter the potential effects of inflation. Aside from a few hawkish diehards, the handwringing over persistent high inflation looks like its coming to an end. Confirming our view that high inflation is a fleeting characteristic of this recovery, the CPI data has shown a decline in price growth for a third straight month. This coincides with this week's end to government stimulus payments. Coupled with the anticipated announcement of Fed tapering somewhere down the road, we think any concerns surrounding a significant Fed response to any inflation threat can be laid to rest for now.

As for that tapering announcement? The Fed meets next week where it's expected to elaborate on its approach to reducing bond purchases. We don't anticipate a definitive announcement as to the timing and actual rate of tapering until its next scheduled meeting in early November. We're several weeks away from what we hope is another in a series of impressive earnings seasons in 2021. The expansion of the economy is continuing, albeit at a slightly uneven pace due to persistent supply constraints that, while resolvable, hold the potential to detour the current recovery for brief periods of time. Stay tuned.

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