HEAD FAKE????

Last week, in a classic example of financial markets acting on emotions, not reasoned facts, stock markets swooned, commodity prices collapsed (if you read popular media), interest rates fell and the US dollar soared. WHY?

FED Chairman Powell changed his mind. After saying in March there would be no interest rate hikes until 2024, last week that was adjusted to *maybe* that change would be in 2023 and *maybe* there could be talk *about talking about* ending the Fed's monthly billion dollar bond buying program. Logic says that the staggeringly expensive government support for the economy, not only south of us, but in Canada as well, can't continue forever. Furthermore, the reason the Fed can entertain *maybe* paring its support and raising rates, is precisely because economies are recovering, employment has improved dramatically, and the majority of businesses are getting back to some sort of pre-2020 normality.

To my mind that is all data that is good for higher wages, more spending, company profits, and subsequently the price of stocks. Yes, currently inflation is running "hotter" than the Federal Reserve Board would like and there are workers and commodity shortages in some areas, but all will get back to some normality in the months ahead. Although again, logic says as economies recover there will be an increase in inflation, although not at current year-over-year percentage increases we are currently experiencing. So, it is ludicrous to me that the markets would react so negatively to something that may happen in 2023, or some 18 months to two years away.

But, as noted in my headline: emotions of sellers and buyers have always affected financial prices in the short-term; longer term it is always economic and financial data that counts.

A review of last week's performance numbers shows, not unexpectedly, those sectors that had done the best so far in 2021 and were over-owned by investors fared the worst:

- Gold down 5.8% and copper lower by over 8%
- US financials, energy and material sectors all dropping over 5%
- The Dow Jones and broad based S&P500 had over 3.5% declines
- Our TSX held up well, falling only 0.7%: big declines in Materials 7.7% and Energy 2.2%, offset by financials holding up and rallies in Real Estate and Technology companies
- The Loonie fell 2.4%, as did virtually all major global currencies against the US dollar.

Meanwhile, as countries continue their move to "re-open", Covid-19 is not giving up easily. In the UK, the Delta variant has resulted in daily cases rising to 8,000 per day versus 2,000 in late May and hospitalizations are starting to rise. This has meant a month delay in England's reopening schedule. As this variant is fast becoming the predominate strain in Canada and the USA, there may well be bumps ahead in the our recovery road and if so a potential impact on the future plans of central banks on both sides of the border.

My stance is the economic recovery will continue, and the bulk of President Biden's stimulus plan will pass. And, yes, inflation will stabilize, but at a more normal, if higher level - so while the excessive price rises in things like construction materials will ease, don't expect lower food, travel, and similar consumer expenses any time soon. If I am correct equity prices will be notably higher by this time next year as will be interest rates.