

Monthly Market Insights

Data and opinions as of October 31, 2021



Earnings surprises power markets, inflation concerns remain

The mountain of worry and volatility that equity markets built up in September eased as October rolled in. October proved to have been the best month for U.S. equities since the start of the year, with the S&P 500 Index recording its largest monthly gain of 5.7%, helped by the release of strong corporate earnings. With 56% of S&P 500 Index companies reporting results as of October 29, 82% of those companies reported a positive earnings-per-share (EPS) surprise, which is above the five-year average of 76%. However, a few big technology names such as Amazon and Apple posted earnings which fell short of expectations. The S&P/TSX Composite Index also ended the month higher, with only 20% of companies having already reported earnings.

The NEI perspective

Reopening continues, but momentum is slowing. The global economy continues to recover from the coronavirus-induced shutdown, albeit at a deaccelerating rate.

Central banks weigh in on inflation. Inflation worries driven by recovering demand, supply chain disruptions, and now rising energy prices have many central bankers contemplating or starting to remove accommodative measures that have been in place since the start of the pandemic.

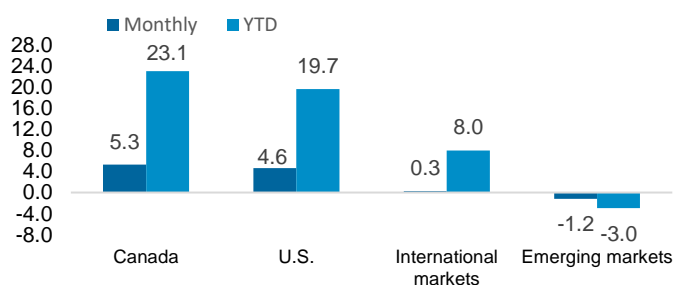
Equity market to get back to basics. The gradual removal of accommodative policy signals a move to a more fundamentally driven market in which earnings become a key driver of share-price movement. So far, Q3 earnings have been better than expected, lifting share prices higher.

From NEI's Monthly Market Monitor for October. [Read the full report](#) for more insights.

NEI

Equity

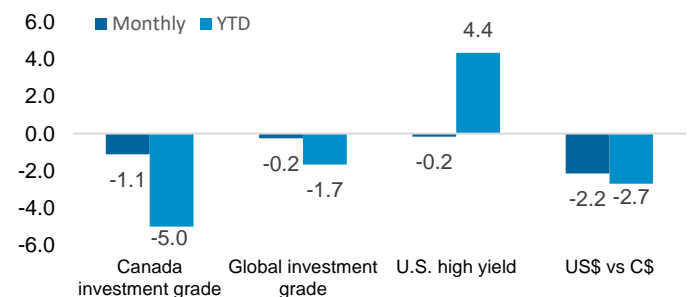
% return in C\$



Canada: MSCI Canada; **U.S.:** MSCI USA; **International markets:** MSCI EAFE; **Emerging markets:** MSCI Emerging Markets. Source: Morningstar Direct.

Fixed income and currency

% return in C\$



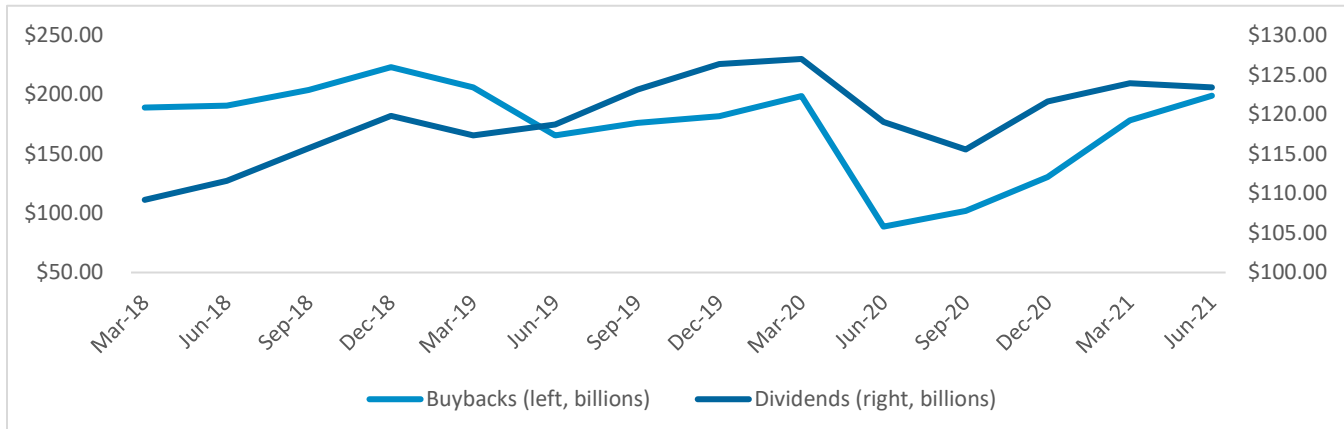
Canada investment grade: Bloomberg Barclays Canada Aggregate; **Global investment grade:** Bloomberg Barclays Global Aggregate; **U.S. high yield:** Bloomberg Barclays U.S. High Yield. Source: Morningstar Direct.

Are buybacks back?

Lately there has been discussion about share buybacks, as companies have returned to the buyback market following strong cash flows and normalization of business activities. Share buybacks, or share repurchases, refer to a transaction in which companies buy back shares from shareholders. Repurchases can be prompted by factors such as transferring wealth back to shareholders in lieu of traditional cash distributions or if companies believe that their shares are being unfairly discounted. Buybacks can also simply be seen as companies deciding to reinvest in themselves.

After a hiatus in 2020, buybacks have resumed in full force with announced buybacks hitting record highs in 2021. Year-to-date buyback authorizations have totaled US\$932B, the highest in dollar terms on record but modestly below the typical pace of authorizations as a share of market capitalization, according to Goldman Sachs. Authorizations have historically sent a strong signal for executions in subsequent quarters. This trend is positive for equities as it signals that companies are optimistic as we head into the second phase of the economic cycle. Companies are looking to return value to shareholders following a focus on preserving cash and resources during the heights of the pandemic. The share repurchase trend can also benefit stocks as reductions in shares outstanding create upward price pressures. Buybacks could help support total equity returns going forward, especially if we see moderation of broad equity gains in 2022.

Buybacks and dividends of S&P 500 Index companies



Source: S&P 500 Dow Jones Indices, as of September 2021. June 2021 data are preliminary only.

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