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Weekly perspective on current market sentiment June 3, 2021

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Last Week's S&P 500 Index: +1.2%

Help wanted

Key takeaways

- Service businesses both small and large are experiencing a meaningful labor shortage.
- As enhanced unemployment benefits fade, we look for this shortage to ease as we move through the second half of this year.

Last week's commentary piece highlighted some observations from this strategist as we worked through the first half of a nine-day road trip that started in Las Vegas and ended in Denver. These types of driving vacations are always a good way to get a feel for how the economy is operating at ground level in a number of different locations. We saw everything from the 24/7 flashing lights entertainment atmosphere of America's premier gaming destination to hard-core RV-, camping-, and fishing-enthusiast locations. We also saw life moving toward normal in one of our country's highest-end resort towns. This was a good trip to gauge what consumer demand might look like postpandemic. These experiences and resulting observations have only reinforced the belief that the growth will be robust this year as pent-up consumer demand continues to be unleashed.

But while each of these locations was obviously quite different in many ways, there was one common thread that tied all of them together: "Help wanted" signs were everywhere. Literally at every stop along the way and in every town and city where we spent time or were just passing through, the need for more labor in service industries such as restaurants, bars, and retail stores (big and small) was on display big time.

Of course, it is tough, as a strategist, to not ask "how's business?" at any place we might stop for a meal, to sightsee, or to stay the night. And while one's spouse might get tired of hearing the same questions at every establishment, such granular information helps solidify opinions that drive projections for economic growth and the strength of the labor market. And at virtually every business along the way, both big and small, employees and owners told us business was good (or even great), but they couldn't find enough workers. In fact, at a number of the larger businesses (i.e., hotels and gaming), not everything was up and running 100% due to the lack of workers. That's right, at some Las Vegas establishments, certain restaurants or gaming table areas couldn't be opened solely due to a lack of labor.

Contributing factors to a worker shortage and falling labor participation rate include a lack of child care, continued fear of the virus, and extended federal unemployment benefits.

Over the balance of the year, we look for more workers to re-enter the labor force as unemployment benefits fall back to more normal levels and pandemic fears subside. Expected spending and employment gains support our outlook for faster economic growth and higher inflation, which guide our preference for cyclical equity overweights and a more defensive fixed income stance. In the meantime, as lockdowns ease, expect the number of "help wanted" signs to be on the rise as well.

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