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Investment Institute

Weekly perspective on current market sentiment — October 6, 2021

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Last week's S&P 500 Index: -2.2%

Stocked shelves?

Key takeaways

- Supply chain disruptions will likely impact this year's holiday shopping season.
- We believe consumer demand should be strong while product on the shelves is potentially in short supply.

Consumers are flush with cash and their balance sheets are looking good. There are close to 11 million jobs currently sitting unfilled in the U.S., according to the latest JOLTS (Job Openings and Labor Turnover Survey from the Bureau of Labor Statistics) report, and wages are on the rise. Your favorite restaurants and bars are likely packed, at least on Thursday, Friday, and Saturday nights, and it is tough to get a table if you don't call at least a day or two in advance. Most economists would agree that the consumer is in good shape and ready to spend money. So how will this translate into the holiday shopping season for both consumers and retailers?

Historically, U.S. consumers with money in their pockets and retailers with product on their shelves would combine to make the holiday shopping season a success. By that, we mean consumers are able to buy what they want and retailers make a reasonable profit. This upcoming shopping season is likely to be different as inventories are highly likely to struggle to keep up with the level of consumer spending. Logistics is continuing to be a huge problem as goods make their way from factories in Asia to local retailer shelves. Container ships have sometimes been waiting weeks to unload cargo at the Port of Long Beach, the second busiest port in the U.S. (the Port of Los Angeles is the busiest by a slim margin). Longshoremen unloading this cargo are swamped and shorthanded. Most of the goods distributed in the U.S. are carried by trucks, and truck drivers are in very short supply. All of these shortages create snafus that meaningfully delay the distribution of goods to the end buyer.

Our projections call for the U.S. economy to grow well above average this year and next, but ongoing shortages of raw materials and finished goods are going to create more friction in the manufacturing-to-end-consumer process. In addition, we do expect that some of the logistics headwinds will begin to ease, but that could easily take 12 months. One positive looking forward is that with many industries experiencing some degree of shortage in finished goods, we expect inventory building to contribute noticeably to growth next year.

For consumers and retailers, we believe this holiday season looks good but not great. Consumers are likely to find some desired products in short supply. Retailers will likely be able to avoid steep discounts to lure buyers given the level of available product. The result may be mostly satisfied consumers and reasonable profits for retailers.

The bottom line for investors is we expect an economic and earnings growth cycle from here that is more sustained and persistent rather than short and explosive. This persistence is one of the reasons why we like stocks over bonds through 2022.

And our advice for the holiday shopping season? Buy early when the shelves are stocked.

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