

The Troublesome Trio

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The equity markets were jubilant in October while the fixed income markets seemed muddled. A trio of market forces are weighing on investor sentiment: sputtering growth expectations, the battle between transitory and embedded inflation, and concerns over rising interest rates. Inflation fears continue to grip the credit markets as input costs and logistical delays have driven the rate of inflation to heights not seen since 1991. At the same time, pandemic-induced supply chain turmoil has impeded the economic recovery and constrained GDP, which rose at a meager 2% rate in the third quarter. The wildcard in this conundrum is the market reaction to the forthcoming shift in monetary policy by the Federal Reserve. The longer the Fed procrastinates in lifting interest rates, the more difficult it may become to control the forces of inflation. With inflation continuing to permeate the economy, seemingly endless supply chain woes and soaring energy costs weighing on growth, the tailwinds of market momentum may be waning. Concurrently, political and health concerns could further complicate matters for the troublesome trio.



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