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Weekly Commentary

Issue **No. 49** | **DECEMBER 29, 2021**

Macro View

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A Christmas Eve Snapshot of the Stock Market

Submitted December 24, 2021

U.S. stocks registered impressive increases in the holiday-shortened week as investors digested promising reports related to the spread of the Omicron variant of Covid-19, following fresh data points that showed rising consumer confidence, lessened concerns about inflation and encouraging economic prints.

As a result of this collective sigh of relief, all the main stock indices posted three straight days of gains, rebounding vigorously from a devastating selloff on Monday. The S&P 500 rose 105 points or 2.3% to close at a new all-time high of 4726. There is growing clarity that investors are increasingly in a great position to snap up equities. Institutions are loaded with cash, and a net total of about $36 billion poured into equity funds last week. That is the highest weekly inflow in the past three months. According to Citigroup, the average weekly inflow is about $5.0 billion by comparison.

Data Trek’s Nicholas Colas made an interesting observation in the Barron’s. He said: “The linchpin of this market is–and has been–corporate earnings. It’s totally reasonable to think about $240 for S&P 500 earnings next year: the Street is at $222”. For perspective, S&P 500 earnings per share were $162 in the year prior to the pandemic. That’s a 48% increase. Back then, 10-year treasury yields were 2.00%, 50 bps higher than where they are now. What we now have is a new step function in corporate earnings that may be permanent. In this connection, the Equity Risk Premium (ERP) is 6.10%. It's perhaps annoying for nervous traders and algos, but far away from troubling for seasoned investors.

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