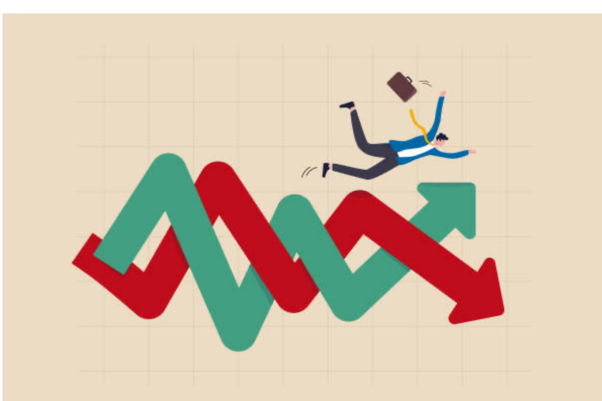
Benchmark stock indexes in Canada and the U.S. suffered their biggest one-day percentage drop in more than two months yesterday, as investors reacted to data showing the largest jump in inflation since 2008. The stronger-than-expected reading sent bond yields higher and left investors wondering whether current price jumps will defy the U.S. Federal Reserve's reassurances by morphing into long-term inflation.

"They may be your grades, but they're the return on my investment."

The sell-off across sectors was broad, but a rally in the price of crude oil felled gains in energy stocks, limiting the drop in the TSX Composite Index to less than half of the major U.S. indexes on a percentage basis. Tech giants which had soared during the past year of lockdowns, took some of the biggest losses on Wall Street.

Pent-up demand from consumers flush with stimulus and savings is colliding with a supply drought of raw materials, sending commodity prices spiking, while a labour shortage in the U.S. is driving wages higher. So inflation -not Covid-19, is now the primary determinant in stock market direction. On the one hand there is something comforting that we are shifting away from a pandemic-dominated time to one where the basic fundamentals of supply and demand, but if inflation proves to be longer-lasting, this is expected to negatively impact equity prices.



Going forward, our view is that central banks will have to start raising rates sooner, and faster than what was expected even just a couple of months ago. This may well mean that investor's tendency to look past minor wobbles in stocks is replaced with a more bearish outlook. Not surprisingly, the CBOE Volatility index, a gage of market anxiety, closed at 28 -its highest level since March.

With inflation anxiety on the rise, stocks are likely to remain under pressure for the balance of the fiscal quarter. Beyond that however, we remain optimistic that the bull market that began in 2009 still has a way to go. Corporate earnings remain strong, with 456 of 500 companies that make up the S&P 500 beating consensus estimates in Q1. An economic outlook of record low unemployment levels and very strong consumer demand is likely to see this repeated over the next two quarters and into 2022. This should be favourable to stocks, even in an environment of somewhat higher inflation. We remain committed to our current asset allocations, which are positioned well to capture future market growth. Riding out market volatility is just part of the equity experience and it's best to allow the institutional money managers we partner with at **Dimensional**, **EdgePoint**, **Guardian** and **Mackenzie** to do what they do best: navigate their way through market turbulence and capitalize on buying opportunities down markets offer. Like us, they've been doing just that for decades now, and know that markets always settle down before resuming their upward direction.

Be safe, be well!

Martin
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