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	Level
Euro Stoxx 50	4,333.34
S&P 500	4,680.06
Nikkei 225	29,794.37
WTI Crude	78.81
Natural Gas	5.72
Spot Gold	1,792.04

Data as of 04.11.2021

Inflation Debate

Written by Mohamed Affi, CFA

October ended up being a very good month for equities in both US and Europe, mainly driven by Q3 results that were strong enough to overshadow inflation fears as well as to ease the market concerns regarding margin headwinds due to cost pressures from commodity inflation, supply chain disruptions, and labor shortages.

The main theme in October was the surprisingly robust earning season, where most companies posted strong sales and even stronger earnings (out of the Stoxx Europe 600 and S&P500 companies that reported their Q3 earnings, 58%, and 82% beat the earnings estimates respectively).

Companies successfully continue to protect their bottom line by passing along the higher costs resulting from inputs, wages, and supply chain bottlenecks toward the end consumers in the form of higher prices. This ongoing cost passing exercise seems to be undertaken by all companies regardless of their sector and is expected to continue, which begs the question of how temporary inflation is.

While the current market conditions look good, reflected in strong earning and growth optimism and low market volatility, it is wise to remember that inflation remains the biggest threat to markets at the moment. Despite markets reacting well to the Fed's decision to start tapering, we expect the inflation debate to retake the center stage after concluding the current earning season.

With an abundance of data points and opinions leading to one conclusion or another, the question regarding whether inflation is transitory or structural remains unanswered as only time will tell.

We remain confident in our portfolio positioning and its ability to deliver solid returns; at the same time, we continue to look for high-quality businesses with sustainable cash flow generation while being careful about what price we pay for them.