

Issue 74

TECH PROBLEMS

Stocks fell as the week began, led by tech, notably Facebook, which was down 4.9% on Monday. Oil rose to its highest level in seven years after OPEC+ said it would stick with production quotas. Stocks dropped on Wednesday, then rose on news of a debt-ceiling deal. Weak job numbers jolted bond yields and tech stocks sagged. On the week, the Dow rose 1.22% to 34,746.25; the S&P 500 gained 0.79% to 4391.34; and the Nasdaq Composite was up 0.09% to 14,579.54.

Facebook will implement new tools to divert users away from harmful content, limit political content and give parents more control on teen Instagram accounts, the company's vice president of global affairs, Nick Clegg, told several morning news shows Sunday. Though Clegg did not elaborate on the specifics of the tools, he told ABC "This Week" that one measure would urge users who are on Facebook's platform Instagram for long periods of time to "take a break". Another feature will nudge teens looking at content harmful to their well-being to look at something else, he said. Clegg's media appearances come in response to the Senate testimony of whistleblower Frances Haugen last Tuesday. Haugen, who leaked internal Facebook documents to The Wall Street Journal and Congress, told a Senate panel that the company consistently puts its own profits over users' health and safety.

The leaked documents from Haugen spurred a series of stories by the Journal that revealed that the company is aware of several problems – including that it knows Instagram is detrimental to the mental health of teenagers – but either ignores or does not resolve them. The company will begin sending data on content it publishes every 12 weeks to an independent audit, Clegg told ABC, because "we need to be held to account". Haugen is scheduled to speak with Facebook's Oversight Board in the coming weeks, the board announced Monday. The board was created in 2018 to review content after the company faced a series of scandals surrounding its handling of alleged Russian interference and other misuses of the platform. The board said on its website that it is currently reviewing whether Facebook has "been fully forthcoming" about responses to its cross-check system, which the Journal revealed allows for celebrities, politicians, and other people with large followings to circumvent some of Facebook's rules.

Corporate America is on course to continue posting earnings growth for the third quarter of 2021, but we should brace for companies to issue disappointing guidance as they contend with supply chain bottlenecks and rising wages. The third quarter earnings season will get underway this week with reports due from 10% of S&P 500 companies, mainly financial firms like JPMorgan Chase & Co., Goldman Sachs, Citigroup, and Wells Fargo. In a note on Monday, Bank of America called the third quarter a "make or break" period for earnings. It said Wall Street is looking for S&P 500 companies to turn in



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MARKET SUMMARIES

(As of this morning before Market Open)

S&P/TSX Composite at 20,416.31
(up 17.11% ytd)

S&P/TSX Venture at 877.48
(up 0.24% ytd)

S&P 500 at 4,361.19 (up 16.11% ytd)

Dow Jones Industrial Avg. at 34,496.06
(up 12.71% ytd)

Nasdaq Composite at 14,486.20
(up 12.40% ytd)

Metals

Gold: \$1755.70

Silver: \$22.67

Copper \$4.37

Energy

Brent Crude Oil: \$82.52

WTI Crude Oil: \$79.50

Natural Gas (\$US/MMBTU): \$5.61



average earnings of \$49.06 a share, up 27% from a year ago when the U.S. economy was beginning to rebound from its COVID-driven recession. That would mark a slowdown from a second quarter earnings expansion of 88% that led companies overall to beat expectations by 17%. “With the strong beat, 3Q EPS estimates have risen 3% over the past three months, but we see increased headwinds heading into 3Q, primarily driven by supply chain issues, delta-driven slowdown, and continued inflationary pressure,” said Savita Subramanian, head of US equity and quantitative strategy at Bank of America Global Research.

BofA, which lowered its third quarter per-share earnings projection by \$2 to \$49, sees earnings for the period meeting analyst expectations but guidance could be “ugly”, the strategist said. Subramanian said while margins in the second quarter expanded to record highs, companies pointed out difficultly passing through cost inflation. “Since then, issues have worsened: supply chain news stories increased 74% and freight rates from China rose 20%, with record backlogs at the West Coast ports” she wrote. Supply issues mostly led to a near-record number of profit warnings in the third quarter. Numerous industries have been hurt by a range of supply-side disruptions such as chip shortages, a jump in costs for shipping and prices for raw materials and pay hikes to alleviate labor force shortages.

WHAT'S AHEAD

Central banks such as the Federal Reserve should be prepared to tighten policy in case inflation gets out of control, the International Monetary Fund (IMF) warned Tuesday. While the IMF said it largely concurs with assessments from the Fed and other economists that the current global spate of price increases will eventually ease, it noted there is “high uncertainty” around those forecasts. The cautionary tone mentioned the U.S., as well as the UK and other developed economies, as placed where “inflation risk are skewed to the upside.” “While monetary policy can generally look through transitory increases in inflation, central banks should be prepared to act quickly if the risks of rising inflation expectations become more material in this uncharted recovery,” Gita Gopinath, the IMF’s economic counselor and director of research, said in an executive summary accompanying the report. Fed officials have stated that the primary weapon to fight inflation is hiking interest rates. The U.S. central bank has not raised rates since 2018. The warning was part of the IMF’s quarterly update on global economic conditions. The fund slightly downgraded the outlook for global growth this year, but slashed the U.S. GDP forecast by a full percentage point from its July outlook, albeit to a still robust 6% that is ahead of the 5.2% forecast for all developed economies. With inflation running around a 30-year high in the U.S., the Fed has had to wrestle with when to start pulling back the extraordinary policy help it has provided since the Covid pandemic crisis began in early 2020.

FINANCIAL PLANNING TIP OF THE WEEK

In the event of business owner disability:

A business owner who becomes disabled may be forced to sell the business in order to maintain a reasonable standard of living. Where the onset of disability is sudden leaving little or no time for advanced planning; a number of obstacles to a successful sale may arise. Everyday that a sale is delayed while these obstacles remain the likelihood of achieving a sale at a fair price diminishes.

- How to identify a buyer;
- How to convince such a buyer to commit to acquiring the business;
- How to negotiate a fair price, particularly if the seller is negotiating from a position of weakness, the need to sell;
- How to ensure that the buyer has sufficient resources to execute the sale and do so in a timely fashion.



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