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Investment Institute

Market Commentary

Weekly perspective on current market sentiment **October 11, 2023**

Scott Wren
Senior Global Market Strategist

Last week's S&P 500 Index: -0.7%

Reshoring

Key takeaways

- Many Americans were shocked when they found out just how dependent we had become on foreign producers.
- Reshoring is quickly developing, assisted heavily by technology that offsets much of the labor-cost disadvantage.

Think back to what many of us may consider a very long time ago — the first year of the pandemic. It was a shock to most that some of the basic everyday items we don't even think about were in short supply. Everyday pharmaceuticals like pain relievers, medical protective wear, diapers, and, yes, toilet paper were in short supply. Once Americans were locked down in their homes and prevented from going out to restaurants, concerts, and movies, demand for goods surged.

The global supply chain was overwhelmed and virtually collapsed. "Big ticket" shortages occurred as the manufacturing of semiconductors and spare parts for everything from cars to appliances to garage doors shut down for long periods of time. These shortages for often-used goods sparked widespread concerns that the U.S. economy was too reliant on other countries to supply items that many of us put to use almost every day. Many Americans were shocked when they found out just how dependent we had become on foreign producers for what are considered "necessary" goods.

So, what did we learn from the severe supply-chain disruption? Common sense might tell you that we clearly need to make sure that in the future we have ready access to products that Americans depend on. Governments around the world are seeking to insulate their key industries at least somewhat from future potential supply-chain shocks. Businesses are also striving to ensure more dependability in their supply chains so that demand can be met.

"Home-shoring" production in some cases will cost more and eat into profit margins, but we have been surprised at how quickly reshoring is developing, assisted heavily by technology that offsets much of the labor-cost disadvantage. In addition, many companies are shifting production to countries either perceived to be more friendly toward the U.S. or closer to our markets. Mexico and Southeast Asia countries are benefitting. Mexico has the advantage of being on the U.S. southern border, which means closer proximity to end users and far less dependence on potentially clogged shipping ports.

What's more, U.S. government data is showing that domestic construction is stronger at this point in the cycle than is typical when compared with past cycles. Much of the government's efforts to re-shore has been focused on directing funds toward the construction of semiconductor fabrication plants here at home. There are also large electric vehicle (EV) battery plants being built or in the planning stages that are benefitting from government infrastructure legislation. Traditional "road and bridge" projects are syncing with increased demands for warehouses and logistics hubs. There have also been increases in investment to compensate for a potentially tight labor market far into the future.

Our favorable rating on the Industrials sector reflects our belief that increased infrastructure and reshoring spending is here to stay for the foreseeable future.

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