Marketline May 2021

Stocks:

May was a mixed month, with subdued returns in the tech sector but positive results in economically sensitive stocks like manufacturing and retail. Seen from a bird's eye view, the US indices have entered a trading range, with returns in the -2% to 2% area for the month. Our neighbors – Mexico and Canada – performed quite a bit better. The Toronto exchange was up 3.9%; and the Mexican Bolsa rose 4.1%. These countries are catching up to the surge in the US economy. A declining dollar added to that return.

On the other hand, Europe looked more like our market, squeezing out just 0.8% on the FT-SE index of large European stocks. The re-opening theme in Europe is lagging somewhat, but promises to catch up as airlines fly more tourists to countries who desperately need outsiders to fuel their recoveries.

Recently we were able to find three new stocks at reasonable values- Lowe's, Regeneron, and Banner Corporation which owns Banner Bank. We will selectively purchase these as appropriate over time. Each of these has a value "story" behind it, with Banner selling reasonably relative to its book value and operating in fast growing smaller cities in the Pacific Northwest; Lowe's being a turnaround candidate that is quite a bit cheaper than its peer Home Depot; and Regeneron selling cheaply due to concerns about its Covid drug fading in popularity as vaccines advance, but with a robust pipeline. We expect above average returns over time as these companies accelerate their strategies and investors begin to appreciate the progress.

Bonds:

Rates declined slightly in May despite a rough start during the first two weeks, when rates rose pretty significantly. These moves reflect shifting opinions around how seriously to take inflation. At the beginning of May, when April inflation indices were announced, the high numbers were disconcerting to investors. The bond market reacted negatively, pushing prices down. But by the end of the month, after assurances by the Fed, prices rose again and rates were nearly unchanged from April's month-end. It is worth discussing exactly what "assurances by the Fed" means. The inflation numbers were high, but analysis shows that the comparisons were based off a low point generated a year ago which was the worst of the pandemic. Thus, the bad number was dismissed as less important than numbers we might see later this year, when comparisons will not be so dire. In reaction, the Fed began by reiterating its "transitory" theme – as in, "yes we will see some inflation but it won't last". But after the negative move by the bond market, various officials began to sing a different tune – namely that monetary support would be lessened if inflation grew much worse or more persistent. When that didn't really do the trick, the Fed committed to reducing its balance sheet gradually by selling some of its bond holdings later this year.

So how does this play out with market participants? First, words are cheap. The market generally didn't believe the "transitory" line, or at the very least, it wasn't enough. The last thing the bond market wants is to see the Fed sit on its hands while inflation rages. So the next round of "assurances" included public musings about tapering monetary support. Bond investors liked that better, but they were much happier after the Fed announced its action step - reducing bond holdings starting later this summer and into the fall, which clearly communicates that the Fed is ready to unwind its big support actions during the pandemic, and gives a time frame. In a complete irony, the reason bond investors like the Fed's balance sheet announcement is that it points to restraints on growth later on – the opposite of what stock investors want. The bond market sees that less monetary support to our economy will coincide with the cessation of unemployment checks later this year, which will restrain growth. Low growth = low interest rates = high bond prices.

Of course, the script can change as we have all seen. But in May, that was the narrative.

Marketline Monthly is produced by ***Cascade Investment Advisors, Inc****. We specialize in value investing for individuals. We apply our approach across markets, looking for low-priced securities that offer above-average potential. We use imagination and hard work to bring performance and personal service to our clients. To learn more, contact Michelle Rand at 1.503.417.1950 or 1.888.443.9015; email to Michelle.Rand@cascadeinvestors.com. Our website is* ***www.cascadeinvestors.com****. A full list of stocks we invest in is available on request; mention of specific securities is not investment advice; such investments may or may not be profitable. Index returns quoted are price only.*