Marketline October 2021

Stocks:

As negative as September turned out to be, October brought the indices back up, a bit above where September started in fact. The Dow rose a strong 5.8%, the S&P 500 was up almost 7%, and the Nasdaq exceeded that, advancing 7.3%. While a few companies have dished up disappointments during earnings season, several bellwether technology companies have shown very strong growth. Manufacturers and consumer companies have at least slightly exceeded expectations; financial firms have been able to reverse loan loss reserves to show decent results. Many have hiked dividends – always welcome! Still, just about every report has mentioned supply chain issues as well as surging energy, labor, and other raw materials costs. Supply issues will either corrected by late 2022, or companies will adapt to the situation; consequently, we have viewed shortfalls to be buying opportunities, gradually redeploying cash where we've seen prices sink.

Foreign stocks logged mixed results this month. Mexico's Bolsa was the only market we follow that actually declined, albeit only by a hair. This market has made zero progress since mid 2017 when it was selling at the same level as today. In fact, companies are delisting, and the market has not welcomed any initial public offerings of significance for years. Canada's stock market made solid progress, up 4.8%. This is a market that is touching new highs. Over in Europe, the FTSE 100 did tack on over 2%, but again, this market has been moribund for over five years. The FTSE is not even close to its pre-pandemic high, and since about 2017, this market has been in a trading range.

The phenomenon of strong stock returns in the US and lesser returns most everywhere else is due to America's dominant position in technology. The US boasts most of the largest tech companies in the world; these companies have created untold wealth over time, propelling our indices far above those overseas.

Looking forward, there's no doubt that valuations are stretched, that inflation is becoming a problem, and that the economy will have a tougher time showing progress after the last year's burst of recovery. Meanwhile the Fed has made it clear that it intends to unwind monetary policy. These are all challenges that stocks must surmount in the months to come.

Bonds:

Interest rates have shown marked volatility lately. The curve flattened last month, with short term interest rates rising, and long rates falling. However, in early November the curve suddenly steepened, then commenced flattening again. As if that wasn't enough, today rates sank rapidly in the early morning, then rose to end the day. Part of the volatility is due to the Bank of England's decision to skip its planned rate hike, which surprised the market. Meanwhile, in China, real estate companies are defaulting right and left. Consumer confidence in China is taking a hit, slowing its economy precipitously. We've all heard about empty buildings in empty cities in China – we're about to find out what that means for the global economy. For a number of years, the country has been one of the most important engines of global growth. Now, it's cooling off.

Speculation is also growing that the Fed will make a policy error, either raising rates too much, or too early, or too late, or not enough, or …. something. Along with a much weaker than expected economic report for the third quarter, and diminishing expectations for the remainder of the year, bond traders are particularly jumpy.

For our part, we're still doing what we always do: looking for new bonds with potentially improving credit metrics and trying to buy at times when rates spike up. Rates will remain low, but credit will be supported by the Fed and other government policies, allowing room for profit and reasonable cash flow - if you know where to look.

Note! Next year, the IRS will publish new actuarial tables, adjusting for longer life expectancies. The numbers will result in slightly lower required distributions from IRA accounts – a positive development for those who would prefer to be withdrawing less for tax reasons.