Marketline November 2021

Stocks:

Another mixed month for the stock indices has passed us by, with prices sideswiped by the advent of worsening Covid infections in Europe and then, right after Thanksgiving, the discovery of a new Covid variant (Omicron) about which little is known. The Nasdaq (mostly technology) did eke out a 0.3% return, but the Dow and the S&P 500 declined 3.7% and 0.8% respectively. In fact, the Dow saw a couple of stocks (Merck and Disney) fall over 14% in November alone. Hospitality and travel stocks were hit too. On the other hand, technology tends to perform better when Covid worries surface partially because investors expect another bout of 'work from home' and distributed work force issues. These trends accelerate the transition to enhanced digital security, cloud products, project management software, private networks, and similar productivity merchandise, all of which helps propel sales at the likes of software, hardware, internet, telecommunication, and cybersecurity firms.

Overseas, markets weren't any better. Stocks in Mexico, Canada and Europe declined by about 2% to 3% on average. The Covid variant layered on top of potentially waning growth and tighter monetary policy was just what the doctor ordered – for a decline in risk appetite culminating in lower stock prices.

Looking forward, we can anticipate a hesitation in the world's recovery due to the response to the new variant. Already, two countries have completely closed their borders to all foreign travelers. The US is tightening Covid testing rules for any person returning to the US from abroad – sure to dampen enthusiasm for foreign travel. Even before Omicron showed up, parts of Europe were awash in Covid cases. Austria initiated a soft lockdown, and Germany was contemplating the same. On the other hand, inflation remains worse than expected and the Fed is positioning to tighten. These two influences coming at stocks will mean more volatility ahead. Volatility can be an opportunity – we have been able to add a couple new stocks to our buy list lately thanks to unwarranted price movements. A10 Networks is a small cybersecurity and application gateway company; Cognizant is a technology consulting firm specializing in financial and healthcare work.

Bonds:

The bond market was particularly wild last month. Until the very end of November, rates all along the curve appeared to be drifting up. But the advent of Omicron challenged the growth thesis, and instead of ending with higher yields all around, the curve flattened for the second month in a row. Short term interest rates rose, predicting the end of the Fed's largesse. But long term rates fell, like they did in October. The long Treasury bond now sits at 1.79%. Treasuries are the 'safe haven', where investors flee when times get tough; consequently, higher demand pushed prices up and yields down.

Elsewhere, especially in the corporate bond market, yields rose a bit. This was an opportunity to buy. We were able to find a couple of fresh corporate names and one municipal that seemed substantially mispriced. Limited supply means we'll have to build positions in these issues over time, however.

Ahead of us is the Fed's move to ease up on its own bond buying in response to lower unemployment and higher inflation. But we don't think this will lead to much higher interest rates, even in ten and thirty year maturities. The global economy has too many imbedded negative triggers. Covid is just one of them; China's great unwind in its real estate sector is another; then we have the danger of high valuations of assets across the spectrum from tech stocks to real estate. Though this sounds ominous for portfolios, it is not. Declining prices are never fun to live with, but always present opportunities to improve holdings.

Note! Our offices remain substantially closed to the public due to Oregon's mask and workplace rules. But we are more than happy to meet with you offsite, or via video or phone. So just let us know.

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