Marketline May 2022

Stocks:

May felt like a roller coaster – perhaps because it was. The Dow began the month at 32,977; it ended at 32,990. In between May first and the thirty-first, it reached a high of just over 34,000, plunged to about 31,400, tried to recover, sank to 30,600, and finally closed about where it started. The S&P behaved similarly, closing literally where it started. Only the NASDAQ broke the mold, but not in a good way. It sank 2.1%. The air continues to seep out of technology stocks, with notables such as Tesla off 13.5% in the month, Apple down 4.5%, and Snowflake sinking 25.7%. The look and feel of this market reminds us of early 2000 when dot com stocks hit their tops and slid precipitously, many not surviving. Afraid to say - some early stage technology companies will similarly not survive this credit cycle.

Overseas, Europe rose marginally after producing plenty of volatility. Canada was off just 0.2%, and Mexico ticked up. All in all, the month brought plenty of angst but not a lot of change.

Last month, we noted: "We have spent some time considering what could go right from here. Other than a resolution to the war, here are a few things:

1. Inflation abates.
2. More people decide to rejoin the labor force, easing employment shortages.
3. China decides to soften its 'zero covid' policies.
4. The shift from spending on things to spending on services eases supply chain issues."

Our winner was item number one – sort of. Late in the month, some minute portion of the myriad inflation numbers that the government reports was at least flat with the last report. A close second was item number three, as China announced an easing of the Shanghai lockdowns and covid infections never really took off in Beijing. Housing weakness and a small rise in jobless claims convinced investors that the Fed might not hike rates as much as planned. This twisted logic – wherein investors celebrate economic slowing - resulted in a bounce in stocks.

The benefits of volatility allowed us to add a few new names to our "potential buys" list – AT&T, Cummins, Ralph Lauren. While stocks must meet several benchmarks before we can approve them, the dividend yields of these three are compelling even without considering other factors: 5%, 2.8% and 3% respectively. Looking to the next few months, however, just because we might buy these stocks does not mean we think the stock market is out of the woods. We are still in a 'bear-ish' market. Bottoming is a process, not a moment in time, and we are no more than midway through the process.

Bonds:

Yields declined last month in most maturities. The thirty year did tick up but appears stuck around 3%. The ten year never managed much more than that either, and has fallen significantly in yield from its high. These lower yields are a reaction to the thought referenced above – that growth might be slowing enough that the Fed can ease up on rate hikes. We expect sentiment swings like these to continue to plague markets, as noted above.

For the time being the opportunity to catch municipals at 4% has faded. We may see another chance but for now we'll just have to look at some other segment of the market. Promising areas are short-ish investment grade corporates, where we are seeing a plethora of 4% and even the occasional 5% yield. Eventually the junk bond arena might become irresistible too, for more venturesome investors. Back in the 2008 to 2009 time frame, investment grade issues were selling at double digit yields, far too tempting to ignore. Maybe we don't reach those levels, but somewhere around 8% would be good enough to justify the research into this tricky market segment.

Note: For investors interested in a great inflation hedge, look into Series I Savings Bonds. These are government issued savings bonds with yields that are set with inflation. The current rate is 9.62%. You can purchase I Bonds through the US Treasury in amounts not to exceed $10,000 per calendar year. See here for information and to open an account: https://www.treasurydirect.gov/indiv/research/indepth/ibonds/res_ibonds.htm

*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. Phone 503.703.3622 (Michelle); our website is **www.cascadeinvestors.com**. A full list of securities 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.*