Marketline August 2024

Stocks:

August gave us moderate returns with domestic equity prices rising in a range around 2% on the Dow and the S&P 500, but only 0.6% on the NASDAQ. We know what to blame for the NASDAQ's modest number – technology. And here again, in September – notable for its volatility – technology has opened the month in a downdraft. Most folks blame Nvidia – the $2.5 trillion chip maker – but tech is down across the board by about 4.5% in the last five trading days, according to Fidelity's sector resources. Of course, plenty of names are down a lot more than that. Broadcom is off almost 17%, AMD is off 10%. It's treacherous in the tech space at the moment.

But back to August. Despite closing on a demurely positive note, prices were exceptionally volatile from day to day. As we approach the next Fed meeting and Powell's testimony, investors are placing bets regarding the magnitude of interest rate cuts: on the one hand, a large cut in interest rates could be seen as a panicky move, which may make participants feel as if the Fed is late and a hard landing is upon us; on the other hand, a small cut in rates may be viewed as inadequate if economic numbers don't improve. Meanwhile, earnings season is nearing, and we've already heard warnings from several companies forecasting soft results.

Overseas, returns were paltry. Mexico fell by 0.3%, and Europe was essentially flat. Canada did squeeze out a 1% gain, and that followed a spectacular month in July with a price return of over 5%. International equity returns have been better in comparison to our domestic indices this year. We keep international exposure at minimal levels, usually around 8% to 12% of portfolios. With around 30% of revenue at S&P 500 companies deriving from foreign operations, it's difficult for us to justify deliberately adding to that.

Overall, we plan to do nothing other than what we always do: look for downdrafts in individual stocks that might fit our criteria, and continue selling stocks that appreciate beyond a reasonable valuation.

Bonds:

The bond rally that gained a foothold in July continued with a vengeance in August. That stands to reason since investor sentiment has shifted toward worrying about a recession which usually brings lower interest rates. For investors not accustomed to figuring bond price movements in response to interest rate changes, it can be a shock to find that the long bond yield falling from 4.40% to 4.20% (where it closed out August) means a price increase in that bond of roughly 3.1%. Last month, 3.1% would have exceeded the price return on stocks by a handy margin. Today, the long bond is down again in yield – barely hanging on to 4% - which means more price appreciation. So unlike in 2022, what investors are losing in stocks is being slightly offset by appreciation in bonds.

Among sectors we favor – corporate bonds and sometimes, municipals – supply scheduled to arrive into the market is burgeoning, especially on the municipal side. As we expected, a flood of federal money is being mated up with municipal funds to repair and build infrastructure. That flood of capital will keep long-term upward pressure on wages, employment, and prices – despite the current softness in those statistics. High supply coupled with fundamental pressures dampen our enthusiasm about bonds for the moment. That doesn't mean we won't buy a single thing, and maybe lots of new bonds will pressure prices downward momentarily. But for now, we're experiencing a form of sticker shock – which is also how we feel shopping at the grocery store these days!

NOTE! Michelle's direct phone number has changed: it is now 971-381-0426. My old number, with me for 25 years, was obliterated by AT&T in a transition to T-Mobile. Please make a note.

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 971-381-0426 (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.*