

Marketline November 2020

Stocks:

Our skepticism around when a COVID vaccine would be available was blasted to smithereens last month, when Pfizer announced that it had a successful candidate. Hard on the heels of that announcement, a couple of other drug companies announced that they were either close to or at the endpoint of creating a vaccine ready for FDA approval. Treatments have been easing symptoms as well. Soon, we could be awash in solutions for this disease, with the only near term issue one of logistics: getting the vaccine to 7 billion people worldwide. Not that that's a minor problem – in fact it's a fairly hairy problem. But for now, the positive vaccine news alongside an easing of election uncertainty caused a big rally in stocks, reversing two months of negative returns. In fact, the Dow managed to break through 30,000 for the first time ever.

Overseas, returns were equally positive. In fact, the developed markets we follow were all up around 10% to 13%, with not much difference among them. Canada was on the low side at 10.3%; Mexico was on the high side at 13%. The rally was broad based, propelling restaurant stocks and software stocks, manufacturers and travel companies alike.

The toughest problem in the market today is putting new cash to work. After such a surge, it's tempting to wait for a correction to buy, or even to eschew stocks altogether in the belief that one has missed out. But doing our job for you means looking every single day for something – some scintilla of value somewhere. We're fortunate that we don't work in a large organization with a forest of rules; rather, we can examine and act on a variety of possibilities in a fairly short time frame. That has brought us Dollar Tree, Raymond James Financial, and MDU Resources – three companies shedding idiosyncratic issues that had held them back. Each of the three is poised to grow faster than in years past; and when compared to remaining in cash at almost a zero percent return, all are relatively exciting.

Bonds:

Rates were pretty steady last month, with a small rally in the longest maturities, but otherwise not much action. The longest Treasury bond closed out the month with a yield of 1.57%.

A shift is underway in inflation expectations. Disruptions in supply chains have caused shortages in many commodities and finished goods. For a time, finished lumber prices were two or more times the prices of last year; copper is in a rally; durable goods like appliances are more expensive. Rising inflation that becomes entrenched can cause bond prices to fall and stay low for years – a phenomenon that the market hasn't encountered since the 1980s. We think the burst of inflation that investors expect will eventually fade as supplies increase. It remains to be seen how the market will view temporary inflation. The initial reaction could be benign, or we could see decaying bond prices and rising yields for some months. In a practical sense, the market's slightly bearish tone means that if you're thinking of taking out a mortgage, maybe sooner is better. On the other hand, if you're building a home, you should be aware that salvage logging in the Pacific Northwest – to clear lands affected by fires – will likely bring a burst of wood supply to market; if that can be milled, housing lumber will decline in price temporarily.

We haven't changed our bond strategy yet as a result of higher yields, but that could change depending on how this inflation concern plays out.

Note: Separate from the various restrictions that Governor Brown has imposed on businesses and activities throughout the state, Oregon's OSHA has issued 105 pages of regulations for all employers who host employees in a workplace. These restrictions include banning "the public" from our spaces, which means we will not be able to conduct in-person meetings at our offices until the restrictions end. That is currently set for May 1, 2021, but as has happened with most of these rules, we fully expect that to be extended, perhaps multiple times. We can of course offer phone and video meetings. We are also travelling selectively, mostly locally. Like everyone else, we can't wait to get out to see you all again, in person.

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