Marketline March 2021

Stocks:

March took the stock indexes to new highs, once again favoring value stocks over momentum. The Dow surged by 6.6%; the S&P 500 was similarly robust at 4.2%. Overseas, Canada, Mexico and Europe's FTSE performed in line – up about 3.5% to 6%. But the tech-heavy Nasdaq nudged up a bare 0.4%. During the month, companies like Snap-on and Mueller Water Products outperformed Amazon and Apple. These results were rooted in the $1.9 trillion COVID relief package passed by Congress, and the advent of yet another spending package in the form of an infrastructure bill in the proposal stage. These expenditures guarantee that at least some segments of the US economy will boom.

The development over the last several years of ongoing deficit spending as 'situation normal', perpetuated by huge fiscal spending by the current administration, is evidence that the economic narrative has flipped. Twenty years ago, economic theory was grounded in scarcity: prices and wages went up because goods and labor were scarce. China has changed the landscape of our economy for good. No longer is scarcity the operative; instead, the world is awash in goods and labor stemming from China's industrialization. Even countries such as Vietnam and India are developing sophisticated manufacturing and technology strategies. For America's middle and lower income classes, this means that driving our unemployment rate to zero may not increase wages or prices appreciably. Vast labor forces overseas are available to offset higher wages here – in medicine, technology, manufacturing, finance, ever more fields every year, aided by digital progress. Consequently, the US, along with Japan and Europe, has entered a sort of "constant economic stimulus" mind-set. While this condition may not achieve stated social goals – it certainly hasn't in Japan or Europe – it is favorable for stocks.

As a practical matter, for your three portfolio managers at Cascade choosing assets for your portfolios, the boom in prices makes finding cheap stocks tougher. But a hedge fund named Archegos handed us an opportunity in the form of Viacom – the fund was overly leveraged to it and several other stocks. When banks forced the liquidation of Archegos, the sudden large sales of Viacom helped push its price down by 30% after it had already declined about 20%. The half-off sale was attractive enough for us to start a position in this leading entertainment company.

Bonds:

I feel like a broken record but here goes: Rates rose yet again last month from two years on out to thirty. The five year note yield jumped to 0.9%, while the ten year hit 1.7% and the thirty year made it to 2.35%. As we write this, rates are stuck right near these levels after spending some time slightly higher. We've been on the fence for a couple of months about inflation – will it take hold again, or not? As you can see from the passage above, we've come down on the side of believing that inflation will remain low longer term. Structural changes to the global economy mean that no one will have much pricing power. Shorter term, inflation will be a concern as demand picks up and shortages persist. Occasional forays upward in yield should probably be used to buy longer bonds.

In the weeds, we're taking a hard look at bonds that have been shunned during the pandemic. These include convention center issues and retirement homes. A brief look at the convention center situation: Kansas City, MO financed a Loews hotel at its convention center, due to open in… March 2020. The opening was delayed of course. A close reading of the situation shows that the city council not only approved the bond issue but also put the city on the hook – behind the scenes so it would be difficult for taxpayers to find out – for certain catering and other contracts which it is now obligated to pay, whether the hotel is open or not. Meanwhile, having approved this capital project, politicians are loathe to fess up to the true extent of this commitment, so are doing their level best to shuffle money from other accounts to pay these bonds. We'd love to own this situation as this is the first new hotel in downtown Kansas City in decades and eventually it will be utilized – but size commitments for trading the bonds make it tough to buy. On the other hand, Birmingham, AL embarked on a convention center refresh pre-pandemic as well. But luck was with this issue, as the city had accumulated some $55 million for capital projects which it *had not yet spent when the pandemic hit*! Those funds, short term borrowings, and $4 billion gifted to AL from Uncle Sam in the last fiscal spending bill will keep these bonds paying, in our opinion.