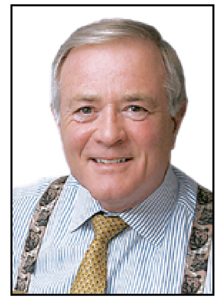
DJC

THE DAILY JOURNAL OF COMMERCE, PORTLAND, OREGON



William Rutherford

OP-ED: Stock market rises amid negative atmosphere

Published November 5, 2021

The S&P 500 rose 6.9% in October in spite of negative news, its best October performance in six years. Disappointing earnings from the likes of Amazon and Apple could not overshadow the strength of the overall market, with more than 80% of stocks meeting or exceeding earnings forecasts. Supply chain interruptions are the cause of revenue misses at both Apple and Amazon, costing Apple $6 billion in sales in the quarter. Interest rates ticked up, but the yield curve did not invert (when short term rates become higher than long term rates), which is usually a sign of a recession. No such sign is apparent.

In short, there are many reasons to sell stocks, but one good reason to buy: stocks are going up. With the market up strong for October, it is now entering the historically best three months of the year for stocks.

Even the pandemic seems to be winding down. Nationally new cases dropped below 75,000, less than half the rate in August. While no cymbals are crashing, the virus appears to be subsiding. Will it experience an uptick during the northern hemisphere traditional cold and flu season? Is the virus becoming endemic and we learn to co-exist? Time will tell.

President Biden's economic package has yet to affect the economy, but if the stimulus comes, it should have a positive effect, in spite of the massive tax offsets. Employment numbers in October exceeded expectations, with many workers trading up to higher paying jobs, thereby increasing their purchasing power. Increased purchasing of things as opposed to services has resulted in supply chain disruptions and increases in prices for things, reversing a 25 year trend.

In short the market appears to want to go up despite the many threats.

The Federal Reserve has been holding interest rates at historically low levels for an extended time. That policy appears to be ending, and the Fed has begun tapering bond purchases, which had the effect of keeping rates low. The bond futures market raised forecasts of interest rate increases to mid 2022. Rising interest rates are usually a signal that the Fed believes the economy is strong or that inflation is a threat. In its November 3rd announcement, the Fed indicated that inflation may be increasing beyond temporary supply chain price impacts, i.e. to a level of more than 2%, and therefore they would target the higher number in their policy making.

Higher interest rates would reflect a stronger economy. Higher rates could also result in a stronger dollar which would affect U.S. trade with foreign buyers. Raising rates could slow the robust economy but the Fed is still likely to favor easy money policies and lean toward low interest rates. The Fed historically favors policies which support strong employment as well as economic growth.

Markets were unaffected by the talk of rate rises, as equity markets climbed to new highs and bond market interest rates remained low. The ten year yield remained just below 1.6%.

A new chapter has begun in the Covid era. For now the U.S. economy appears strong and remains a good place to invest.

William Rutherford is the founder and portfolio manager of Portland-based Rutherford Investment Management. Contact him at 888-755-6546 or wrutherford@rutherfordinvestment.com. Information herein is from sources believed to be reliable, but accuracy and completeness cannot be guaranteed. Investment involves risk and may result in losses.

The opinions, beliefs and viewpoints expressed in the preceding commentary are those of the author and do not necessarily reflect the opinions, beliefs and viewpoints of the Daily Journal of Commerce or its editors. Neither the author nor the DJC guarantees the accuracy or completeness of any information published herein.