Bell
Institutional Investment Management

EQUITY & FIXED INCOME OUTLOOK NOVEMBER 2021

This month's Outlook arrives a couple of days later than usual, as we awaited the Federal Reserve's announcement about tapering its open market asset purchases. The Fed confirmed it will reduce its purchases by $15 billion a month starting in November. That means the prior policy's purchases of $120 billion per month will decline to $105 billion in November and $90 billion in December.

What does this mean to investors? These purchases have had the effect of keeping interest rates low, because the Fed is a price-insensitive buyer (they don't care about bond yield), and these purchases add liquidity (cash) to the financial system. Low interest rates and elevated cash in the financial system push investors to look for avenues to invest this excess liquidity with the prospect of better returns – which, by definition, also come with more risk. Slowing purchases may reduce upward price pressure on invested assets. This is a fancy way of saying stock, bond and real estate returns may not be as attractive moving forward as they have been looking backward. We don't expect this to be the immediate market response, because Congress is still negotiating a $1.75 trillion spending package, which also has the effect of increasing cash in the economy.

You may be wondering how to avoid the prospect of diminished returns, or even some type of market correction. In coming days, there will be no shortage of expert commentary suggesting investors move into cash, commodities, gold, crypto, emerging markets, art, private equity, hedge funds or other avenues. Many of these messages create a sense of concern in the minds of investors, urging them to take action.

Our advice? Don't take the bait! The best way to avoid getting caught up in portfolio churn is to remain focused on long-term investment goals, while avoiding short-term noise. Fortunately, we have an example as recently as last year – when the stock market went from a record high on March 4, 2020, to a 28% sell-off by March 23, 2020, and back to a record high by June 5, 2020. Any attempt to navigate weak or unstable markets by repositioning a portfolio likely resulted in returns that were inferior to those gained by investors who maintained existing portfolio positions and focused on long-term goals.

Make no mistake about it. It is very hard to look beyond disruption when it presents itself. Sometimes, the volatility lasts a long time. In early 2000, the S&P 500 reached a high of 1527 on March 27, 2000, then proceeded to sell off in the wake of the tech stock bubble. It didn't eclipse this level again until May 31, 2007. That didn't last long. Soon after, the financial crisis ushered in a 50+% sell-off, and the stock market did not reach a level above that of March 2000 until March 2013. Altogether, the stock market went 13 years before it sustained a level above where it had been in March 2000. Comparing the stock market to the bond market for the last 20 years shows that the stock market didn't sustain a return above bonds until April 2020. Our chart demonstrates that even though bond returns are not very enticing, this asset class still serves as a good source of stability in a portfolio.

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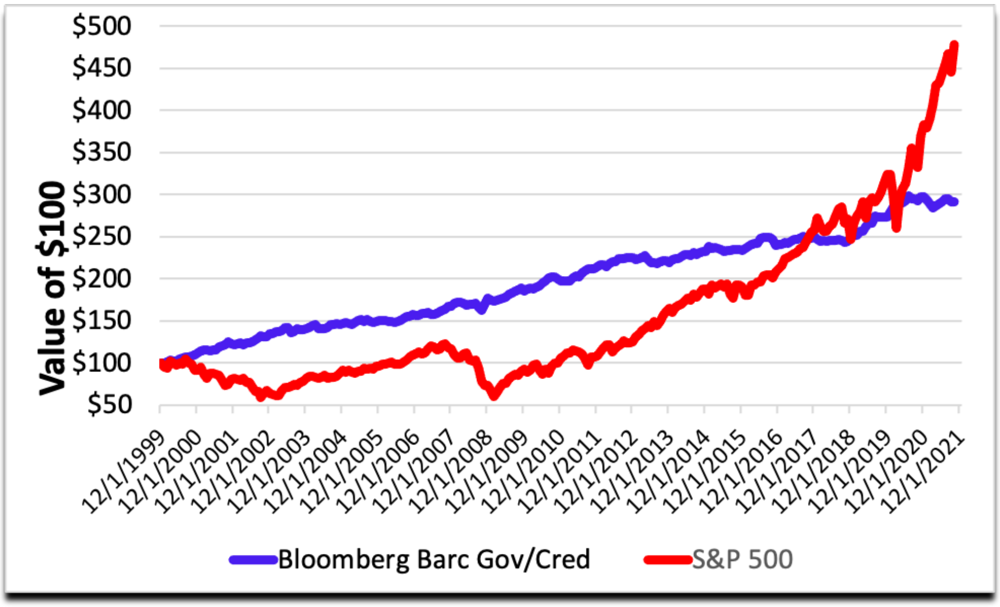

The angle of ascent in the stock market over the last year and a half is a bit concerning. We believe it is a reflection of the elevated liquidity created by the Fed. Stock market valuations are lofty compared to historical averages, but corporate earnings growth has been attractive enough to support current market levels. Looking at the red line could suggest it's time to be defensive. That observation could have been the same six months ago and 12 months ago, but it would have been painful missing out on the returns that have occurred since then.

There is no sure way to consistently and profitably time the market – which is why it is so important to have an asset allocation consistent with your investment profile and long-term goals. In the words of Red Green, "Keep your stick on the ice!"

Thank you very much for your business and the trust you put in us.

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