Investment Strategy Update

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The end of the first quarter of 2021 provides an opportunity for us to share a few noteworthy observations. First, a year has now passed since COVID-19 introduced new challenges to our lives. Our communities, families, and friends locally and globally have all been affected. Some of us have suffered incalculable losses. Second, as investors, we have experienced a period of extraordinary coordination of supportive fiscal and monetary policies (QE) that calmed the wild market volatility of March 2020 and fostered a new bull market for stocks. Third, our optimism about "returning to normal" remains fueled by improvements in vaccine distribution and the re-opening of our economy. This optimism has been met, however, with higher mortgage rates and bond yields as well as concerns about rising costs (inflation).

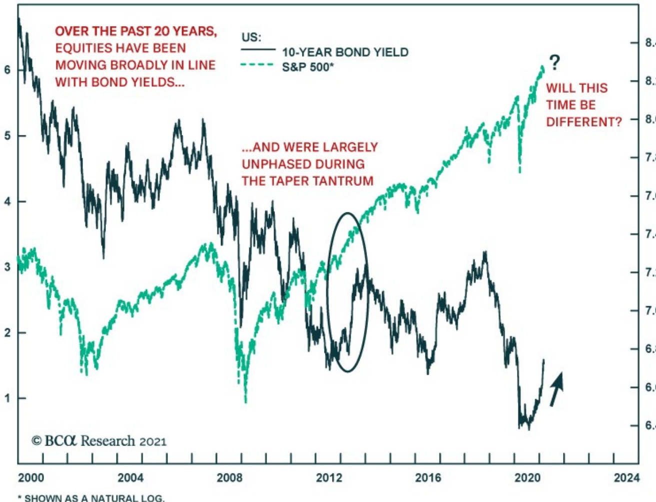
BCA Research elegantly and succinctly summarized the current push-pull between developed market stocks (collectively, DM equities), and bond yields during the past three months writing:

Much ink has been spilled on the impact of rising bond yields on equities.

Some argue that stepping back from these daily moves, the longer-term relationship between yields and stocks will remain positive. Interest rates are low and they do not restrict economic activity. Moreover, even though the change in yields has been very large in recent months, equities have remained largely resilient, making new highs. The Fed's QE program is what is pushing up bond yields, but all this liquidity also supports the economy and stock market.

Others argue that the impact of QE on equities depends on the inflation backdrop, whereby QE is positive for equities only when the risk is deflation. According to this line of thought, the US economy is undergoing a regime shift whereby inflation is becoming the main economic risk. In this context, QE will grow negative for equities. Moreover, valuations are currently extremely demanding, which make stocks vulnerable to a change in rates. This is unlike the 2013 taper tantrum period when DM equities were largely unscathed because the valuation risk was muted.

… there is no clear consensus.



Indicator Spotlight 12 Mar 2021 The Stock-Bond Relationship: A Point of Contention (BCA Research)

Looking ahead, we expect rising yields to benefit value stocks over growth stocks. And higher bond yields to improve the income component of portfolio total return.

At the heart of Blue Oak is our objective to help investors make rational, informed, and intelligent investment decisions. A key component to investment success is maintaining a disciplined approach to diversification. Our process of actively rebalancing portfolios to stay within individually constructed investment policy guidelines helps prevent being too optimistic or too pessimistic at any given time.

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