STONEBRIDGE Capital Advisors

Stonebridge Market Wrap

January 13, 2017

For the week ending January 13, 2017

Last week was relatively quiet. Not much in the way of economic indicators and just the beginning salvo of fourth quarter earnings were reported. Next week will get off to a slow start with the market's closure on Monday for Martin Luther King Day. Everything appears to be in a holding pattern with very low volatility for now. The confirmation hearings are proceeding apace with little real news emerging. Next Friday is inauguration day so there will be protests, but other than that expect business as usual.

Next week is also the World Economic Forum in Davos, Switzerland. All of the world's business, entertainment and political leaders will be there, at least those not going to the Trump inauguration. It would be interesting to be a fly on the wall this year as they discuss events that were not expected to happen in 2016 but did, such as Brexit and the Trump election. Anticipate musings about populism, nationalism and learning the lessons from the 30's. The good news being that all forum attendees net worth is up since the election, with the possible exception of George Soros who was reported to lose a cool $1 billion since then.

I have seen articles in the past week that opine that one should "sell the inauguration". While the market may correct after the inauguration, it also may not. Resist this kind of trading advice. This kind of knee jerk advice will cost you in the long run in higher trading fees and higher taxes at the minimum. We don't want to pay more to Uncle Sam than necessary...

Dave Eckenrode
Director of Equity Management

Key Economic Releases for the coming week:

Wednesday January 18th:

- CPI; .3% expected
- Core CPI; .2% expected
- Industrial Production; .6% expected
- Capacity Utilization; 75.4% expected

Thursday, January 19th:

- Housing Starts; 1.176MM expected

Index & Price Changes for week ending 1/13/17	
DJIA– 19,885.73	Fell 78.07 points
NASDAQ– 5574.12	Rose 53.06 points
S&P 500– 2274.64	Fell 2.34 points
S&P Small Cap 600– 839.86	Fell .31 points
90 Day T Bill– 0.52%	Yield Rose .05%
2 yr TSY– 1.18%	Yield Fell .02%
5 yr TSY– 1.88%	Yield Was unchanged
10 yr TSY– 2.37%	Yield was unchanged
30 yr TSY– 2.97%	Yield Rose .01%
Oil- $ 52.39*	Fell $1.60 per barrel
Gold- $ 1198.90*	Rose $25.50 per oz.
Unleaded Gasoline*-$1.61	Fell $.02 per gallon
Euro- $ 1.0646	Rose $.0104 against the $

* Wholesale price for NY Mercantile Exchange traded contract

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Key 2017 Economic Themes

Expected US GDP Growth: 1% - 2.5% average for the year

- Faster growth in the first half but slowing in the second half of the year
- We expect a considerably weaker economy in late 2017 due to greater inflation than anticipated

Inflation: 2% - 2.5% for both Consumer Price Index (CPI) and Core CPI

- Inflation is expected to push above the Federal Reserve's target of 2%
- The Federal Reserve will hike the funds rate more aggressively than anticipated

Interest Rates: 10-Year U. S. Treasury rate remaining relatively stable, 2.50% - 3% range

- Short -term rates to rise higher than most expect causing a flattening of the yield curve
- Long rates relatively stable but moderately higher by year end

Employment: 1.2 million new payroll jobs

- Unemployment, currently at 4.7%, will continue to drift lower but approaching low point
- Wages – continued upward pressure

U.S. Dollar: On average, little change by year-end but watch for volatility

Global Trading Partners: Growth outlook stabilizing

- Relaxed monetary policies continue
- Additional stimulus needed through fiscal policies and structural reforms

Our View

The current economic expansion in the U.S., now in its eighth year, is on track to be one of the longest on record, albeit one of the slowest

Inflation is expected to push above the Federal Reserve's target of 2%

Federal Reserve to hike short-term interest rates substantially higher than the consensus anticipates

Equities:

- We are cautiously optimistic on stocks and believe the environment ahead will be much more favorable toward stock pickers rather than passive index investors
- We believe this is an opportunity to reevaluate investor objectives and risk tolerances given the potential we are nearing the end of a bull market

Bonds:

- Begin to opportunistically take advantage of higher yields
- Improve portfolio yield through gradually increasing maturity structures
- Increased state and local government spending on infrastructure

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