Stonebridge Market Wrap

January 27, 2017

For the week ending January 27, 2017

Have you ever lived in a house that was undergoing a major renovation? If you have, then you will recall the mess of tearing down walls, ripping down drywall and fixtures and generally living in a big mess heading to an outcome that somewhat was close to what you had in mind. That was the feel of the first week of the Trump administration. The guy is a builder after all. There was so much happening in the first week that it was hard to take it all in. Many people don't know what to make of all of this activity and are acting flummoxed. The press, who had him losing in a landslide, are especially chagrined. Naturally, the coverage is negative (mostly) and there have been protests almost every day. Still, the market goes higher on the wave of meetings with CEOs and union representatives, executive orders and announcements designed to shake up the status quo. You would think the market would yield some in the face of all of this but it has not, the market is voting with its feet.

This took place in the midst of a very busy fourth quarter earnings season. Earnings, that for the most part, are not bad - not bad at all. What are we to make of all of this sturm und drang? Like a remodel, you have to start by breaking down some walls. As Bette Davis said in "All About Eve"; "Fasten your seatbelts, it's going to be a bumpy night".

Dave Eckenrode
Director of Equity Management

Key Economic Releases for the coming week:

Tuesday January 31st:

- Consumer Confidence; 112.5 expected

Wednesday, February 1st:

- ISM Index; 55.0 expected

Friday, February 3rd:

- Unemployment; 4.7% expected
- Nonfarm Payrolls; 172M expected
- ISM Services Index; 57.0 expected

Index & Price Changes for week ending 1/27/17	
DJIA– 20,093.78	Rose 266.53 points
NASDAQ– 5660.78	Rose 105.45 points
S&P 500– 2284.27	Rose 22.96 points
S&P Small Cap 600– 838.36	Rose 10.80 points
90 Day T Bill– 0.50%	Yield was unchanged
2 yr TSY– 1.22%	Yield Rose .05%
5 yr TSY– 1.94%	Yield Rose .03%
10 yr TSY– 2.48%	Yield Rose .04%
30 yr TSY– 3.06%	Yield Rose .03%
Oil- $ 52.92*	Fell $.30 per barrel
Gold- $ 1189.30*	Fell $15.60 per oz.
Unleaded Gasoline*-$1.53	Fell $.04 per gallon
Euro- $ 1.0694	Fell $.0037 against the $

* Wholesale price for NY Mercantile Exchange traded contract

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Proposed Tax Cuts? Munis Still Attractive!

A common question that we have been asked since the election is, "should we still be buying municipal bonds given a potential change in the tax code?" First, I would like to point out that municipal bonds provide benefits to investors and communities over and above the tax exemption. Bonds allow states and municipalities to finance needed infrastructure, schools and other revenue projects at a lower, more cost effective interest rate. At the same time, investing in these bonds gives investors an opportunity to support their local communities in a meaningful way. Municipal bonds offer a great deal of diversification for fixed income portfolios as well. That being said, the most common reason to buy muni bonds is still for the federal tax-exemption. Expectations of a cut in income taxes has recently led to the questions of value in the muni bond market. I have been calculating the "taxable equivalent yield" for muni bonds for years and the chart below shows the actual benefits of tax exempt income to a portfolio.

	10 Year	Taxable Equivalent			10 Year	10 Year
Ratin	**Muni Yield**	**at 39.6%**	**at 28%**	**at 15%**	**US Treasury Yield**	**Corporate Yield**
AAA	2.33%	3.86%	3.24%	2.74%	2.48%	2.96%
AA	2.56%	4.24%	3.56%	3.01%		3.15%
A	2.92%	4.83%	4.06%	3.44%		3.27%

According to this chart, you could buy a 10 year A rated muni bond at 2.92%. The taxable equivalent yield using a 15% tax bracket is 3.44%. This means that a taxable bond would need to yield higher than 3.44% to make it more attractive than the muni bond in this example. As you can see, an A rated corporate industrial bond is yielding 3.27%. This leads us to the conclusion that, even if tax rates were to be lowered considerably, tax-exempt bonds still represent value to the investor. As an additional bonus, remember that in certain states income from muni bonds to residents is also exempt from state income taxes. In high tax states this makes tax free bonds even more attractive.

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