Stonebridge Market Wrap

February 10, 2017

For the week ending February 10, 2017

Momentum. P = M*V. P is momentum, M is mass and V is velocity. It's all very simple. Usually big round numbers take time to break. Witness the 2200 level on the S&P. It took almost six months to break through that level and only about 10 days to trade through 2300. Now we know that we have momentum but what is the other side of the equation? M*V, which can be reduced to the new high/new low numbers. In Thursday's trading, the M = 164 new highs and 7 new lows. The V = is the speed at which the 2300 level fell in 10-11 days. Now, 157 net new highs is nothing to sneeze at but these numbers can get quite a bit bigger before we are done. It also shows that we are nowhere near a mania.

Just a reminder, none of the forgoing discussion obviates the possibility of a pullback. These can, and do occur with frequency.

Dave Eckenrode
Director of Equity Management

Key Economic Releases for the coming week:

Tuesday, February 14th:
- Retail Sales; .2% expected
- PPI; .3% expected
- Core PPI; .2% expected

Wednesday, February 15th:
- CPI; .3% expected
- Core CPI; .2% expected
- Retail Sales; .2% expected

Thursday, February 16th:
- Housing Starts; 1.235MM expected

Index & Price Changes for week ending 2/10/17	
DJIA– 20,071.46	Rose 197.91 points
NASDAQ– 5734.13	Rose 67.36 points
S&P 500– 2316.10	Rose 18.68 points
S&P Small Cap 600– 849.64	Rose 8.30 points
90 Day T Bill– 0.53%	Yield Rose .03%
2 yr TSY– 1.19%	Yield Fell .01%
5 yr TSY– 1.89%	Yield Fell .04%
10 yr TSY– 2.41%	Yield Fell .08%
30 yr TSY– 3.02%	Yield Fell .09%
Oil- $ 53.86*	Rose $.17 per barrel
Gold- $ 1235.90*	Rose $18.70 per oz.
Unleaded Gasoline*-$1.59	Rose $.05 per gallon
Euro- $ 1.0631	Fell .0132 against the $

* Wholesale price for NY Mercantile Exchange traded contract

2550 University Avenue West, Suite 180 South, St. Paul, MN 55114 Fax: 651-251-1010 Phone: 651-251-1000
830 East Front Street, Suite 300 Traverse City, MI 49686 Fax: 231-933-0628 Phone: 231-933-0320
www.stonebridgecap.com Toll-free: 800-317-1127

General Obligation vs. Revenue Bonds

While there are several different types of municipal bonds that can be purchased, two of the most common types of bonds are general obligation (GO) bonds and revenue bonds. Both types of bonds can be high quality bonds. GO bonds are backed by the full faith and credit of the issuer. This is to say that a municipality will use its taxing power to pay back the debt that they borrowed. While the strength of that taxing power varies from city to city, the likelihood of the bonds being repaid is very high. While some GO defaults have made the news recently (Detroit, Jefferson County, San Bernardino), it is very rare for a GO bond to default and even more rare for the GO bonds not to pay off their debt (some GO bonds have gone into default but still paid off their debt without missing a payment). Because of this strong backing, GO bonds tend to have a tighter spread compared to other types of issuance.

To add a little more spread and yield to a client's account, Stonebridge also looks at many different types of revenue bonds. Revenue bonds can vary in their quality based on the project that is supporting the debt. For example, an essential service revenue source, such as water and sewer debt, will generally have a lower yield compared to a standalone project, since most people enjoy having running water and sewer, they are more willing to pay their bills. Understanding the quality of the project and its revenue source allows Stonebridge to find bonds with higher spreads, while minimizing the risk involved with each bond purchased.

Buying both GO and revenue bonds allows Stonebridge to diversify portfolios while trying to find moments when one or the other may be more attractive. If you have any questions regarding bonds or your accounts in general, please contact us at 800-317-1127.

Scott M. Shinnick
Fixed Income Trader &
Portfolio Manager