

For the week ending March 10, 2017

A down week? How utterly pedestrian. You would think that after getting used to a market with no downside, we had rewritten the rules governing the stock market. Fear and greed must have been repealed. I'm joking of course, but it is astounding that the tumult reflected by the media has been met with so much equanimity by the investor class.

Next week is action packed, with the start of the NCAA Men's basketball tournament, St. Patrick's Day and a Fed meeting that will probably see a hike in rates. Will a rate hike upset the market? It's widely expected so I'd say no. We had a better than expected jobs report on Friday that cleared the way for a hike.

We have had quite a ride since election day. All S&P 500 sectors are up with seven of the eleven sectors up over 10%. Financials are leading the way, up 24.5% followed closely by Industrials and Information Technology.

David A. Eckenrode
Director of Equity Management

Key Economic Releases
for the coming week:

Tuesday, March 14th:

- ◆ PPI; .1% expected
- ◆ Core PPI; .2% expected

Wednesday, March 15th:

- ◆ CPI; .1% expected
- ◆ Core CPI; .2% expected
- ◆ Retail Sales; .1% expected

Thursday, March 16th:

- ◆ Housing Starts; 1.26 MM expected

Friday, March 17th:

- ◆ Capacity Utilization; 75.4% expected
- ◆ Industrial Production; .2% expected
- ◆ Consumer Confidence; 11% expected

Index & Price Changes for week ending 3/10/17

DJIA – 21,005.71	Fell 102.73 points
NASDAQ – 5861.73	Fell 8.92 points
S&P 500 – 2372.60	Fell 10.52 points
S&P Small Cap 600 – 830.29	Fell 19.11 points
90 Day T Bill – 0.74%	Yield Rose .04%
2 yr TSY – 1.36%	Yield Rose .06%
5 yr TSY – 2.10%	Yield Rose .09%
10 yr TSY – 2.58%	Yield Rose .09%
30 yr TSY – 3.17%	Yield Rose .09%
Oil - \$ 48.38*	Fell \$4.98 per barrel
Gold - \$ 1234.10*	Fell \$2.70 per oz.
Unleaded Gasoline *-\$1.59	Fell \$.07 per gallon
Euro - \$ 1.0692	Rose .0133 against the \$

*Wholesale price for NY Mercantile Exchange traded contract



Municipalities and Tax Exemption

Over the past several years there have been many articles in the press dedicated to the topic of municipalities being able to issue bonds that are exempt from taxes. This topic has been brought up recently in regards to how the Trump administration views these exemptions and if they will continue going forward. President Trump has stated he sees the benefit of tax exempt municipal bonds, but that nothing is off the table. That being said, I wanted to go through who issues these bonds and why tax-exemption is important.

We have talked in the past in regards to the type of muni bonds that are issued (general obligation, revenue and certificates of participation), but we have not spent much time discussing the types of projects that they fund. Municipal bonds are used for the public good. They are vital to government entities (both large and small) funding their projects. According to Thomson Reuters, there was \$423.8 billion in new bond sales in 2016. This can include, but is not limited to: Infrastructure, School Projects, Water and Sewer, Police and Fire Projects and Redevelopment Projects. The main benefit of this form of funding is the discount that is associated with them. Since the buyer of the bonds (Stonebridge Clients) do not have to pay federal and/or state taxes, they are willing to accept a lower yield on the bonds. This means that the issuers of the bonds (states, counties, cities, school districts...) are able to borrow at a significantly lower cost. Due to this lower cost of funding, any administration that has threatened to take away the tax exemption from municipal bonds almost immediately gets pushback from Governors and Mayors.

I would expect that the debate on tax exempt bonds will continue to be in the news. The fixed income team at Stonebridge will continue to stay informed on the issues and relay any changes to you should they occur.

Scott M. Shinnick
Fixed Income Trader & Portfolio Manager