STONEBRIDGE Capital Advisors

Stonebridge Market Wrap

May 5, 2017

For the week ending May 5, 2017 This week in one of our equity team calls, a very interesting point regarding investing for dividends compared to investing for growth was brought up. So far this year we have seen a great divergence in the returns generated by the two main investment styles in equities, growth versus value. While it is typical for these two styles to diverge, this year we are witnessing a greater than normal divergence. As of this writing, there is a 9.04% spread between the Russell 1000 Growth and Russell 1000 Value index; 11.92% to 2.88%. Usually investors favoring the value style are interested in the total return, dividends plus some gain. They are also looking for less volatility. So far this year investors are paying a very heavy price for peace of mind. A couple of things to keep in mind; these styles do cycle back and forth. If you compare the two indices for the one year return, the difference is 2.89%. Secondly, there is a heavy influence of the so called "FANG" stocks, Facebook, Apple, Netflix and Google (Alphabet). These 4 stocks are heavily weighted in the growth index and, so far this year, have jointly returned 24.22%, more than doubling the growth index itself. The four are important weights in the Russell, compromising over 12% of the index weight. If you add in Amazon you get to 16.5% and if you add in Microsoft you get to 21%. These weights go a long way in explaining growth's outperformance. The FANG's 24% are mirrored by Amazon at 25% YTD and Microsoft at a mere 11.4%. As for the value guys, their underperformance can be explained in part by the expectation of rising rates that make dividend payers somewhat out of style. The whole post election rally had been based on the pro business tilt of the administration and, with it, the expectation of higher earnings growth.

By Monday we will know the results of the French election. A Macron victory is predicted so expect a bit of a shock if LePen wins. Remember Brexit and Trump? Thought you might...

Dave Eckenrode
Director of Equity Management

Key Economic Releases for the coming week:

Thursday, May 11th:

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

Friday, May 12th:

- CPI; .2% expected
- Core CPI; expected
- Retail Sales; .6% expected

Index & Price Changes for week ending 5/5/17	
DJIA– 21,006.94	Rose 66.43 points
NASDAQ– 6100.76	Rose 53.16 points
S&P 500– 2399.29	Rose 15.09 points
S&P Small Cap 600– 848.96	Fell 2.40 points
90 Day T Bill– 0.88%	Yield Rose .02%
2 yr TSY– 1.31%	Yield Rose .03%
5 yr TSY– 1.88%	Yield Rose .07%
10 yr TSY– 2.35%	Yield Rose .06%
30 yr TSY– 2.99%	Yield Rose .03%
Oil- $ 46.17*	Fell $3.16 per barrel
Gold- $ 1227.90*	Fell $40.39 per oz.
Unleaded Gasoline*-$1.50	Fell $.04 per gallon
Euro- $ 1.0987	Rose .0092 against the $

* Wholesale price for NY Mercantile Exchange traded contract

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Corporate Bond Market Sectors

Just as stocks in the equity market are categorized into sectors, credits in the corporate bond market also fall into different sectors. Some of the main sectors we look at for corporates are:

Financials	Communications
Healthcare	Transportation
Utilities	Consumer Discretionary
Energy	Consumer Staples
Materials	Technology
Industrials	

As we do in the equity market, bond investors often choose to adjust the weighting of sectors in portfolio's based on economic or sector specific outlook's or relative value of certain sectors over others. While some over or underweight positioning can benefit overall yield and performance, it is important not to lose sight of why we diversify across multiple credits and multiple sectors in the first place—to smooth out risk. When yields are high, a large concentration in Energy or Financials may feel like a winning strategy…that is of course until it is not anymore.

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