Stonebridge Market Wrap

May 19, 2017

For the week ending May 19, 2017

The market was doing fine, until Wednesday when the news that broke the night before that President Trump had met with FBI Director Comey in February at which time Trump told Comey "that he hoped that he (Comey) could see hes way clear to letting this go, letting Flynn go. He is a good guy.He is a good guy. I hope you can let this go." The New York Times published the story based on an anonymous source who read the reporter part of some notes that Comey wrote about the meeting. The media and Trump opponents went berserk about Trump trying to shut down the investigation and out came the calls of obstruction of justice and impeachment. Nevertheless, here we are with a Special Council appointed. Maybe this will turn down the heat, at least temporarily. Perhaps this action will allow the administration to focus back to its agenda. Congress will have to put hearings on the back burner and get back to work.

The markets, who do not like uncertainty of any kind and do like tax cuts, regulatory reform and infrastructure spending, took off for the hills on Wednesday, finishing down 377 points. In short, the market took a risk off position as uncertainty over the enactment of Trump's agenda seemed to take a hit. The markets steadied and got back most of the drop on Thursday and Friday. Now, how should we react to all of this? I think we can do ourselves a favor by not overreacting. I think that the market is much more concerned with earnings, unemployment and the economy than all of the turmoil in Washington. There is much we do not know, of course. There could be something to all of this and maybe it will come out someday. It is funny that with all of the leaks in the last six months, why has there not been anything of substance leaked? I guess we will have to see.

Dave Eckenrode
Director of Equity Management

Key Economic Releases for the coming week:

Friday, May 26th:

- Q1 GDP Rev.; .9% expected
- Durable Goods Orders; (1.8%) expected

Index & Price Changes for week ending 5/19/17	
DJIA– 20,804.84	Fell 91.77 points
NASDAQ– 6083.70	Fell 37.53 points
S&P 500– 2381.73	Fell 9.17 points
S&P Small Cap 600– 828.12	Fell 10.42 points
90 Day T Bill– 0.91%	Yield Rose .04%
2 yr TSY– 1.27%	Yield Fell .02%
5 yr TSY– 1.79%	Yield Fell .06%
10 yr TSY– 2.25%	Yield Fell .06%
30 yr TSY– 2.91%	Yield Fell .08%
Oil- $ 50.38*	Rose $2.68 per barrel
Gold- $ 1251.70*	Rose $23..10 per oz.
Unleaded Gasoline*-$1.57	Rose $.07 per gallon
Euro- $ 1.1192	Rose $.0205 against the $

* Wholesale price for NY Mercantile Exchange traded contract

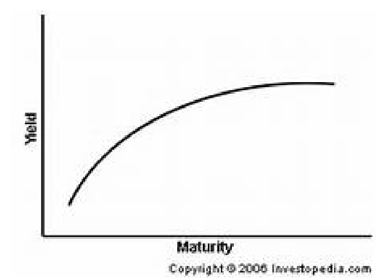
2550 University Avenue West, Suite 180 South, St. Paul, MN 55114 Fax: 651-251-1010 Phone: 651-251-1000
830 East Front Street, Suite 300 Traverse City, MI 49686 Fax: 231-933-0628 Phone: 231-933-0320
www.stonebridgecap.com Toll-free: 800-317-1127

Bond Market Comments: What does a yield curve say about the market?

Talk about the yield curve is constantly in the news, especially these days. There is talk about a normal, flattening, steepening or inverting of the curve. While there is not a guaranteed outcome based off of the yield curve, it is an indication on what the bond market is thinking. Below are examples of different types of yield curves and what each scenario might indicate will happen in the market or economy as a whole.

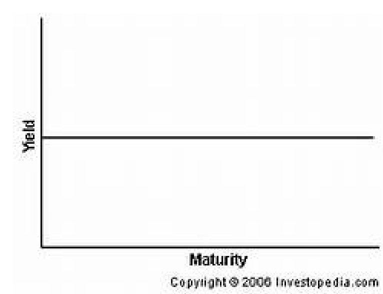
Normal Yield Curve

The graph on the right shows a normal yield curve. All things being equal, the shorter maturing bonds will be lower yielding compared to longer bonds. This should be the case because investors are taking on more default risk when holding longer maturing bonds. When the yield curve is "normal," this generally shows signs that the economy is strong and that investors have a positive outlook.



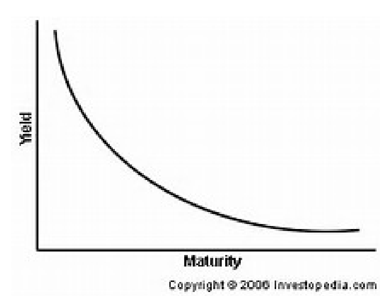
Flat Yield Curve

The graph on the right shows a flat yield curve. All things being equal, the shorter maturing bonds are being compensated at the same rate as longer bonds. This could be viewed as a warning that the economy is struggling and that investors no longer expect the economy to grow rapidly. The curve flattens because investors do not have a positive outlook on the economy and would rather invest in longer maturities, while accepting less in return.



Inverted (or Negative) Yield Curve

The graph on the right shows an inverted yield curve. All things being equal, the shorter maturing bonds are being compensated at a higher rate compared to longer bonds. While an inverted yield curve is the least common of the three curves, this could be viewed as a strong indicator that a recession is coming in the near future. Investors are willing to give up yield in order to place their investments into safer sectors of the market for longer periods of time.



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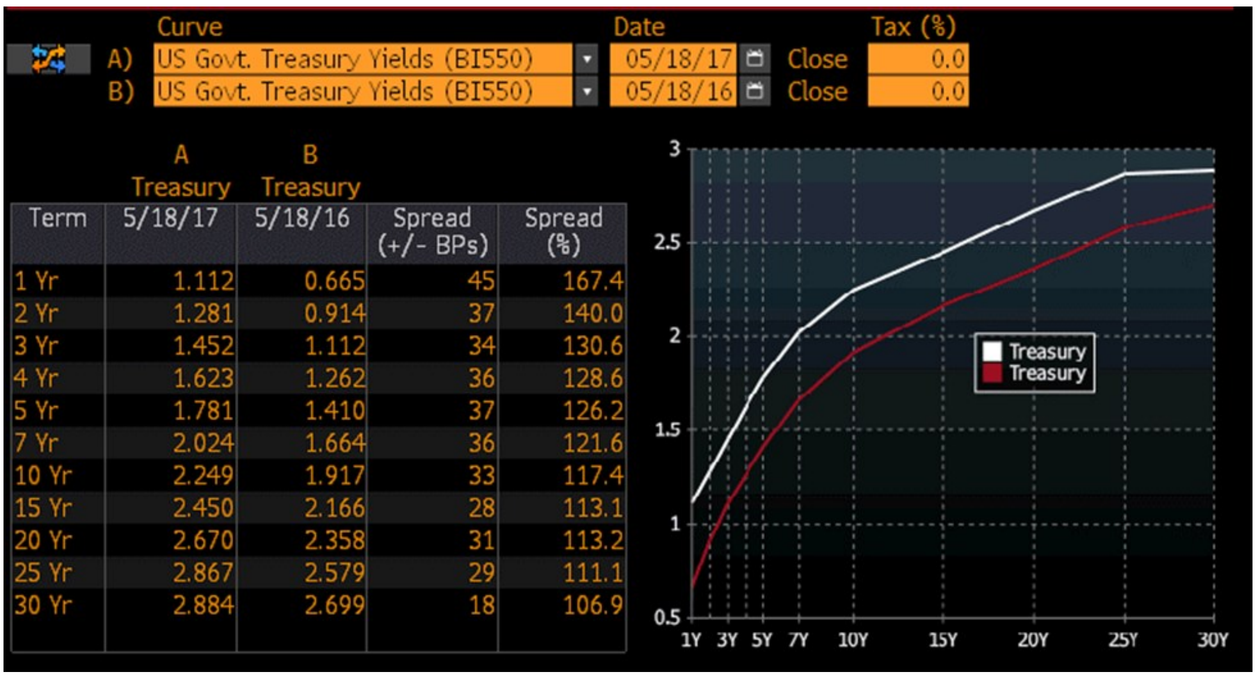
So that leads us to the question, where is the yield curve currently? Below is a graph showing the current US Treasury yield curve now, compared to where it was a year ago. The white line shows yields as of 5/18/17, while the red lines shows yields as of 5/18/16. As you can see, while the yields are higher, the curve currently has a "normal" trajectory. You are getting paid more for longer bonds than you are for short bonds. This should indicate continued growth in the economy (although the rate of growth may change). As always, Stonebridge will continue to monitor the curve in order to try and determine what we feel the economy is going to do.



Term	A Treasury 5/18/17	B Treasury 5/18/16	Spread (+/- BPs)	Spread (%)
1 Yr	1.112	0.665	45	167.4
2 Yr	1.281	0.914	37	140.0
3 Yr	1.452	1.112	34	130.6
4 Yr	1.623	1.262	36	128.6
5 Yr	1.781	1.410	37	126.2
7 Yr	2.024	1.664	36	121.6
10 Yr	2.249	1.917	33	117.4
15 Yr	2.450	2.166	28	113.1
20 Yr	2.670	2.358	31	113.2
25 Yr	2.867	2.579	29	111.1
30 Yr	2.884	2.699	18	106.9

Source: Bloomberg

Scott M. Shinnick
Fixed Income Trader & Portfolio Manager