Stonebridge Market Wrap

June 2, 2017

For the week ending June 2, 2017

We had a bit of a downer from the employment report on Friday with additional downward revisions for the previous two months. On top of that, the day before, we withdrew from the Paris Climate Accords that was signed last September. The market reaction? Buy treasuries, buy stocks, buy gold.

Amid the caterwauling, denunciations and Elon Musk leaving the Presidential Councils, the market still went up. Seems like the song never changes. The market has a day or three of downside and then resumes its upward climb. The volatility has evaporated which has hit big banks trading. Even though the Fed is bumping rates up and are widely expected to do so again in June, bonds are at 2017 low yields.

We hear a lot about how narrow this advance is and how it is dominated by the FANG stocks (Facebook, Amazon, Netflix and Google), however, there is plenty of action outside of those names. In the past year, Citigroup is up 34%, Anthem 43%, Boeing 49%, Conoco 34% and Microchip Tech 64%. I could go on, but you get the idea. While this bull market is getting old, it still has some punch to it. Bull markets don't die of old age, they are killed either by Fed action or a sharp turn in the economy.

Next week is light on economic data so the drift continues until something comes along to change the trajectory. Of course we have the former FBI Director testifying on Thursday so that will provide an opportunity for maximum bloviation by the political/media class. Thursday is also election day in the United Kingdom. Prime Minister Teresa May is widely thought to be the winner, but there is some concern that her party won't garner enough seats in Parliament to have a governing majority. That leaves the door open to a coalition government with Jeremy Corbyn as Prime Minister. That would shake things up.

Dave Eckenrode
Director of Equity Management

Key Economic Releases for the coming week:

Monday, June 5th:
ISM Services.; 57.1 expected

Index & Price Changes for week ending 6/2/17	
DJIA– 21,206.29	Rose 126.01 points
NASDAQ– 6305.80	Rose 95.61 points
S&P 500– 2439.07	Rose 23.25 points
S&P Small Cap 600– 851.91	Rose 14.41 points
90 Day T Bill– 0.97%	Yield Rose .05%
2 yr TSY– 1.28%	Yield Fell .01%
5 yr TSY– 1.72%	Yield Fell .03%
10 yr TSY– 2.16%	Yield Fell .22%
30 yr TSY– 2.81%	Yield Fell .10%
Oil- $ 47.62*	Fell $1.71 per barrel
Gold- $ 1280.10*	Rose $17.60 per oz.
Unleaded Gasoline*-$1.57	Fell $.06 per gallon
Euro- $ 1.1275	Rose $.0112 against the $

* Wholesale price for NY Mercantile Exchange traded contract

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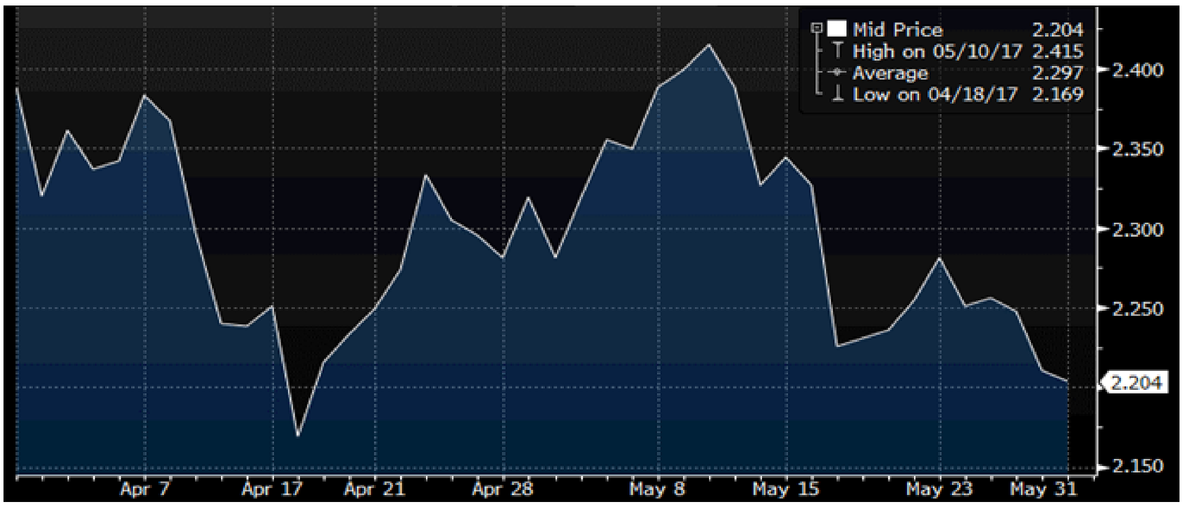
Bond Market Update

The bond market had a slight rally since the beginning of the 2nd quarter. As the chart below shows, the 10 year treasury started the quarter at 2.39%, had a high of 2.415% on 5/10/17 and has since rallied to a current yield of 2.20%. The majority of the rally can be explained as a flight to quality due to political events such as the firing of FBI director James Comey, turmoil with regards to foreign policy and a lower possibility of U.S. tax cuts in 2017. The Federal Reserve is expected to raise rates on the Federal Fund Rate in June, which has the possibility of raising rates on the short end in June. That being said, the market is expecting the rate hike, so it shouldn't come as a shock to the market.

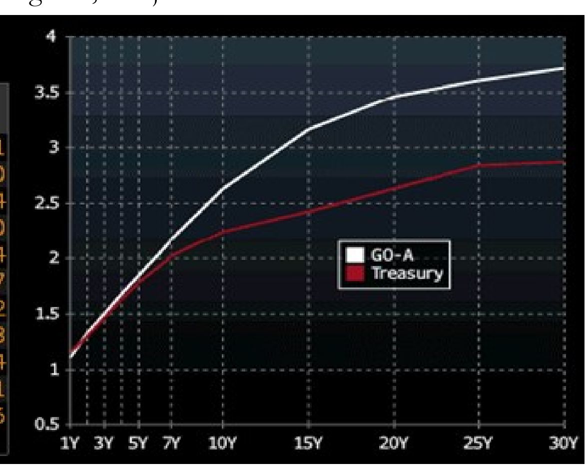
Source: Bloomberg



In regards to yields in the market, the below chart shows the yields of the US Treasury vs A rated General Obligation Municipal Bonds. As you can see, on the short end of the curve the muni yields are around 100% of treasury, which is good value relatively. As you go out longer, this value continues as municipal bonds are yielding more than treasuries. This gap in yields is due to treasuries flattening out more than municipal bonds. It should be noted that both yield curves are flat on the long end, it is just that treasuries are more so.

Source: Bloomberg

	A GO-A	B Treasury		
Term	5/31/17	5/31/17	Spread (+/- BPs)	Spread (%)
1 Yr	1.111	1.156	-5	96.1
2 Yr	1.328	1.301	3	102.0
3 Yr	1.502	1.466	3	102.4
4 Yr	1.679	1.630	5	103.0
5 Yr	1.843	1.782	6	103.4
7 Yr	2.177	2.021	16	107.7
10 Yr	2.630	2.244	39	117.2
15 Yr	3.162	2.426	73	130.3
20 Yr	3.463	2.635	83	131.4
25 Yr	3.608	2.839	77	127.1
30 Yr	3.720	2.871	85	129.6



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