STONEBRIDGE
Capital Advisors

Stonebridge Market Wrap

June 16, 2017

For the week ending June 16, 2017

Just when you thought the news couldn't get any worse, current events come along and smack you upside the head. It is an amazing thing that, amid so much acrimony, investors can see through the fog and just buy anyway. We have seen, over the past week, evidence of a rotation away from tech stocks in favor of more staid value companies. This shift seemed to come out of nowhere as there was not any news powering the trade. Out went the big winners like Amazon, Apple, Facebook and Google and in came almost everything else. It seemed that if a sector had lagged this year it was now time to invest in. Banks, drugs, industrials and even energy had a bounce. The graphic above is a heat map of the movement for the past week.

Big news to end the week. Amazon bids $42 for Whole Foods. If this goes through it is a game changer for the grocers. All got hit hard Friday, Walmart and Target as well. Will there be a competing bid? Maybe Kroger or Target? Stay tuned.

The irony of the week? Bloomberg reported that federal agencies would no longer have to file reports on their Y2K preparedness. Seriously.

David A. Eckenrode
Director of Equity Management

Key Economic Releases for the coming week:

Thursday, June 22nd:

- Leading Economic Indicators; .3% expected

Index & Price Changes for week ending 6/16/17	
DJIA– 21,384.28	Rose 112.31 points
NASDAQ– 6151.76	Fell 56.16 points
S&P 500– 2433.15	Rose 1.38 points
S&P Small Cap 600– 852.69	Fell 11.22 points
90 Day T Bill– 1.00%	Yield Was Unchanged
2 yr TSY– 1.32%	Yield Fell .02%
5 yr TSY– 1.74%	Yield Fell .03%
10 yr TSY– 2.15%	Yield Fell .06%
30 yr TSY– 2.78%	Yield Fell .08%
Oil- $ 45.83*	Fell $1.10 per barrel
Gold- $ 1272.50*	Fell $7.60 per oz.
Unleaded Gasoline*-$1.46	Fell $.04 per gallon
Euro- $ 1.1195	Fell $.0002 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

Valuing the Municipal Bond

We like to occasionally remind our readers of just how important the tax-exempt status of municipal bonds really is. It seems the exemption comes under attack more these days than in the past. Tax-free bonds are a vital tool for states and, perhaps more importantly, local governments to fund essential projects like schools, hospitals, roads and bridges. The tax-exemption creates a supply of capital for the municipal market by attracting local individual investors willing to invest in sometimes smaller communities' essential service projects that larger lenders may pass over simply because they are too small for them to focus on. Citizens and stakeholders certainly benefit from the funded projects and borrowing cost savings.

Consider a bond issued to renovate a hospital in Glencoe, MN or one to make improvements to the electric utility in Claremore, OK. Municipal investors many times have a familiarity with the project and credit or because of the taxable equivalent yield are more willing to do some research if they do not. In return for their investment, they earn a fair yield, in part because of the exemption. In short, it assures an efficient market for a somewhat esoteric asset class. And let us not forget that it has been doing just that very well since the 1800's.

Imagine upending the system whereby Claremore, OK now has to compete with IBM or McDonalds to find investors in its small, now taxable bond issue. Often, large institutions and lenders that invest in taxable bonds have investment mandates that will only allow for investments in very large issues or certain narrow credit rating parameters. Even if those lenders can loan capital to smaller municipalities, it certainly would not be at comparable rates with large blue chip, ultra-liquid corporate names.

Still, calls for repealing the exemption, mostly from those who do not understand the market, periodically come up when the federal government is looking for new revenue sources. The exemption is often framed as "a subsidy for the rich" by these folks who want to impose taxes on municipal interest. While the exemption offers the most investor benefit (in theory) to earners in the highest tax bracket, in reality the majority of municipal income is earned by individuals well under the highest bracket. Perhaps forgotten completely in the repeal argument is the benefit it provides to all local stakeholders not just in lower borrowing costs, but the speed and ability to access the capital markets in the first place.

Fortunately, not everyone in government eyes the exemption as a huge source of potential tax revenue burning a hole in its pocket. Did you know that there is actually a Congressional Municipal Finance Caucus? It is a 42 member, bi-partisan caucus co-chaired by Randy Hultgren (R-IL) and Dutch Ruppersberger (D-MD). Its purpose is to recognize the contribution municipal finance has made to the building of the country and to protect the tax-exempt treatment of municipal bonds. You can visit its website if you would like to see if your representative in Congress is a member. The address is http://hultgren.house.gov/congressional-municipal-finance-caucus

While comprehensive tax reform passing this year is not a guarantee (nor that it would include a provision to repeal), you can bet that once discussions begin to pick up in earnest, the grumblings for a renewed look at the exemption will be out there. If you assure the preservation of the tax-exemption, you may want to consider reaching out and sharing your support with your representatives in Congress. Even if you are not a municipal bond investor, if you take a moment to think about what they have likely funded in your community, you may well find a new appreciation for their value.

Jon F. Lynn
Senior Analyst & Portfolio Manager