Stonebridge Market Wrap

STONEBRIDGE Capital Advisors

August 18, 2017

For the week ending August 18, 2017

The market took a deep breath on Monday when North Korea took a step back from their threat to shoot a few missiles Guam's way. The market then drifted higher on Tuesday and Wednesday before succumbing to earnings pressure from Cisco and WalMart on Thursday. Add to that, two awful terror attacks in Spain and you had the perfect storm that carried the week's gains back to the starting line. Friday they tried to drive the market lower but the effort fizzled before noon and then drifted for the rest of the day. Even the most extraordinary political turmoil that lasted all week seemed to have little effect. Friday they reported the University of Michigan Consumer Sentiment Index and it moved higher in spite of all of the negative coverage. Friday also saw a terrorist attack in Finland yet the markets were still unmoved. We have had a couple of rough weeks in the markets but they are bending not breaking. So far, this feels like a run of the mill pullback.

In a couple of weeks we will have Labor Day and the Hamptonites will have finished off their Tangueray and Tonics along with their lobster rolls, bid a fond adieu to the Kardashians so they can get back to trading.

Of course on Monday we will have a solar eclipse. That should be interesting. There is almost a total lack of new data next week so maybe we will have a quiet week.

David A. Eckenrode
Director of Equity Management

Key Economic Releases for the coming week:

Friday, August 25th:

- Durable Goods Orders; .4% expected

Index & Price Changes for week ending 8/18/17	
DJIA– 21,674.51	Fell 183.81 points
NASDAQ– 6216.53	Fell 40.03 points
S&P 500– 2425.55	Fell 15.79 points
S&P Small Cap 600– 818.38	Fell 36.22 points
90 Day T Bill– 1.00%	Yield Fell .03%
2 yr TSY– 1.31%	Yield Rose .02%
5 yr TSY– 1.76%	Yield Rose .01%
10 yr TSY– 2.19%	Yield was unchanged
30 yr TSY– 2.77%	Yield Fell .02%
Oil- $ 48.65*	Fell $.11 per barrel
Gold- $ 1292.10*	Rose $27.90 per oz.
Unleaded Gasoline*-$1.62	Fell $.01 per gallon
Euro- $ 1.1763	Fell $.0063 against the $

** Wholesale price for NY Mercantile Exchange traded contract*

2550 University Avenue West, Suite 180 South, St. Paul, MN 55114
830 East Front Street, Suite 300 Traverse City, MI 49686
www.stonebridgecap.com

Fax: 651-251-1010 Phone: 651-251-1000
Fax: 231-933-0628 Phone: 231-933-0320
Toll-free: 800-317-1127

Corporate Bonds and Dividends/Stock Repurchases

Not a lot of people realized that corporate bonds have an effect on the price of a stock. There is an obvious connection in regards to how much debt a company has on its books. The higher the debt ratios a company has, the riskier the company is. This can be reflected in the price of the stock. Two more hidden ways that stock prices can be influenced is through the repurchasing of stock and increasing a company's dividend. This is more common in a low interest rate environment. Companies are able to borrow at historically low yields and turn around and use that money to either increase their dividend or buy back company shares. In buying back company shares, they boost the earnings per share (EPS).

When interest rate increase, things get a little more interesting. Using proceeds from corporate debt to create a demand for company shares is a viable strategy when borrowing is cheap. What happens when it gets more expensive to borrow? What happens if this coincides with a downturn in the market? In those scenario companies will be less inclined to us corporate debt to buy back shares and they are decreasing the demand for shares on two fronts (repurchases and normal market demand). This can have an even greater negative effect on share prices compared to a normal pullback due to an economic cycle.

When corporations issue debt, this is one thing that Stonebridge watches to determine whether or not a stock or a bond is a good fit for each individual client. Each company has unique financials and the issuance of debt for dividends and stock repurchase effects each company differently. Weighing the pros and cons of this can help determine how a company is going to react when investing environments change.

Scott M. Shinnick
Fixed Income Trader & Portfolio Manager