Stonebridge Market Wrap

September 1, 2017

For the week ending September 1, 2017

Hurricane Harvey destruction. North Korea missile launches. Markets go down ...right? Nope. The markets somehow went up despite the terrible devastation of Southeast Texas and Louisiana.

The climb back will take years for many. Well over 100,000 homes were flooded in Houston with no doubt many more in the surrounding area. According to reports, about 85% have no flood coverage. A huge jump in mortgage delinquencies seems inevitable. Many businesses are flooded so they will need to be rehabbed. About 500,000 cars and trucks were also lost. There is going to be a huge amount of work and money to get this back up and running. It seems likely that a bunch of folks will simply walk away from their flooded homes and move elsewhere like they did after Katrina. As far as the critical infrastructure goes, not only do they have a great deal of bridge and road work to do but they need to get the Port of Houston operating. The Union Pacific rail lines are shut down and they carry most of the stuff manufactured in Mexico to their end users. Due to these problems, a great many supply chains are dealing with major disruptions. What a mess. The good news is the Texans themselves. The picture at the right shows a line of people in Houston waiting to...volunteer. Texans, gotta love 'em.

David A. Eckenrode
Director of Equity Management

Key Economic Releases for the coming week:

Wednesday, September 6th:

- ISM Services Index.; 54.6 expected

Index & Price Changes for week ending 9/01/17	
DJIA– 21,987.56	Rose 173.89 points
NASDAQ– 6435.33	Rose 169.69 points
S&P 500– 2476.55	Rose 51.00 points
S&P Small Cap 600– 847.05	Rose 19.40 points
90 Day T Bill– 1.01%	Yield Fell .01%
2 yr TSY– 1.34%	Yield Rose .01%
5 yr TSY– 1.73%	Yield Fell .02%
10 yr TSY– 2.16%	Yield Fell .01%
30 yr TSY– 2.77%	Yield Rose .02%
Oil- $ 47.29*	Fell $1.36 per barrel
Gold- $ 1330.10*	Rose $34.10 per oz.
Unleaded Gasoline*-$1.74	Rose $.13 per gallon
Euro- $ 1.1864	Fell $.0013 against the $

** Wholesale price for NY Mercantile Exchange traded contract*

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Are Natural Disasters also a Calamity for Municipal Bonds?

All of our hearts go out to those affected by the unimaginable aftermath of Hurricane Harvey. Recovery and rebuilding will surely be measured in years rather than months. Initial estimates we have heard for the impact on those economies are upwards of $200 billion. Only a small fraction of the damage is thought to be insured. With costs so high to clean up and rebuild the region's many affected communities, one can't help but wonder how routine services and government obligations including municipal bond payments will be affected in the months and years ahead.

Though we have reviewed and will continue to closely monitor individual investments in the region, we do not expect widespread financial distress or insolvencies. Experience with costly past hurricanes and large scale flooding (Katrina and Sandy most recently) tells us that local governments can be stressed as cash flows and revenues like sales and property tax payments can fluctuate in the short term. Still, we can find no instances of a payment default as a result of a recent calamity. One of the main reasons is that the Federal government, through FEMA, largely steps in and either reimburses most of the costs to rebuild or pays for project costs directly, easing the financial burden on the local governments.

We expect that there will be credit rating agency reviews, revised outlooks and even lowered credit ratings as cities and counties wade through the challenges of clean-up and rebuilding not only infrastructure but their tax bases as well. However, history tells us the potential for resulting defaults with these types of disasters is remote. Still, we will continue to closely follow our regional credits for stress and may even uncover attractive opportunities down the road to make bond investments that in turn aid in the rebuilding process.

Jon F. Lynn
Senior Analyst & Portfolio Manager

Additional Note: Trade Settlement Period Shortening

We would like to make you aware that effective September 5th, 2017 the U.S. & Canadian trade settlement period will shorten from three days after the trade (T+3) to two days after the trade (T+2). Equities, corporate bonds, municipal bonds, unit investment trusts, ETFs, ADRs, and Rights an Warrants will all be affected by this adjustment.

This change will benefit investors as it will reduce the time to settlement of trade thus reducing possible risk that could be inherent in the unsettled time period.

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