STONEBRIDGE Capital Advisors

Stonebridge Market Wrap

September 29, 2017

For the week ending September 29, 2017

This week saw some action on several fronts, many of them market moving. Since the health care reform bill was withdrawn, many commentators opined that the talk of tax reform would likely founder. Wrong. We got a look at the President's tax plan on Thursday and there are many aspects that will have to be negotiated and will likely take months to finalize so take the breathless report of winners and losers with a large grain of salt. Click here for a pretty good chart of the tax plan.

The Fed also set a hawkish tone in its comments raising the likelihood of a December rate increase to 100% or more. Cue the banks to head north.

We also got an upward revision in 2Q GDP to 3.1% and although that number will probably fall in the third quarter because of the hurricanes, but strength will return in the 4th quarter and probably the first half of 2018.

We also have seen a bump in energy prices to the $52 area which gave hope (and a nice pop) to the battered energy sector.

David A. Eckenrode
Director of Equity Management

Key Economic Releases for the coming week:

Monday, October 2nd:
- ISM Index.; 57.5 expected

Wednesday, October 4th:
- ISM Services Index; 54.9 expected

Friday, October 6th:
- Unemployment; 4.4% expected
- Nonfarm Payrolls; 130M expected

Index & Price Changes for week ending 9/29/17	
DJIA– 22,405.09	Rose 55.50 points
NASDAQ– 6495.96	Rose 47.49 points
S&P 500– 2519.36	Rose 19.13 points
S&P Small Cap 600– 903.98	Rose 29.11 points
90 Day T Bill– 1.04%	Yield Rose .02%
2 yr TSY– 1.47%	Yield Rose .03%
5 yr TSY– 1.92%	Yield Rose .05%
10 yr TSY– 2.32%	Yield Rose .06%
30 yr TSY– 2.85%	Yield Rose .06%
Oil- $ 51.67*	Rose $1.03 per barrel
Gold- $ 1286.10*	Fell $13.60 per oz.
Unleaded Gasoline*-$1.61	Fell $.06 per gallon
Euro- $ 1.1814	Fell $.013 against the $

** Wholesale price for NY Mercantile Exchange traded cont*

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Buying Local: Is it Always Best in Muniland?

Bloomberg News pointed out an oddity in its Municipal Market Brief this week. It made mention that for most of September, state of New York bonds have paid higher yields than state of California bonds, despite New York holding a higher credit rating. In theory, the lower the credit quality, the higher the yield should be. Bloomberg credited the relative scarcity of tax-exempt bonds in California made available to a growing population of investors. Really, there are likely a number of factors that could explain the difference.

In thinking through the different reasons that could cause this, it reinforced the notion that looking outside your home state is often where you find opportunities. Diversification beyond your state's border not only spreads credit exposure across different regions, but when done methodically, it can in some cases improve net yield over a state specific portfolio.

If you live in a state with an income tax, interest on in-state municipal bonds is generally double exempt (exempt from both state and Federal income taxes). Therefore if you want to consider using an out-of-state bond (whose interest *would* be subject to state income taxes) it ought to offer enough extra yield over the double exempt bond to compensate for the tax.

You can evaluate an in-state versus out-of-state bond similar to the way you evaluate a tax-exempt versus a federally taxable bond, like a corporate or Treasury bond. If you want to know the yield you need to achieve to compensate for paying state taxes on an out-of-state bond, take the in-state yield and divide it by 1 less your state income tax rate. That is the threshold rate that you need to reach to make using national bonds beneficial from a yield standpoint.

For example, right now a generic 10-year Minnesota municipal bond yields 2.08% according to Bloomberg's yield curve. Investors in the top tax bracket (9.85%) within the state would then need to find a comparable bond out-of-state that would yield 2.30% or more to make it profitable to use out-of-state, all else equal. Now, take a double-A rated Oklahoma sales tax and utility system revenue bond issue that was priced this week to yield 2.37% in 10 years. In this instance, you could use a highly rated, out-of-state credit, pay state income tax and still net some extra yield over in-state bonds. If you want the benefit of diversification across other regions and to improve your yield keep that threshold in mind- it will tell you when it makes sense to look beyond your own border.

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