STONEBRIDGE Capital Advisors

Stonebridge Market Wrap

October 27, 2017

For the week ending October 27, 2017

Tech stocks rumbled back to life on Friday in a big way on the heels of boffo earnings beats. Google, Microsoft, Intel and Amazon were all up 6-10% on the day sporting flash new highs. Even wallflower Twitter managed a 14 month high. Friday's action also contained good news on the economy with 3Q GDP coming in hot at 3%, a level that the "experts" said couldn't be done. 3% in spite of the hurricanes that shaved a couple of tenths off of the 3Q read.

What a crazy week. We had dueling 160 point up and down days amid some talk of reducing 401K contributions to $2400. We had oil nudging higher as the Saudi Aramco IPO seems to be approaching. Surprised that oil is firmer? Me neither.

Probably the best news this week is that we have a World Series that may yet see Houston as the champ. Good, they deserve it as does Justin Verlander. This is a far better story and more edifying than trying to keep up with the Weinstein saga or, heaven forfend, the twists and turns of the "Trump Dossier". Boomerangs act funny some times n'est ce pas?

And amid all of this distraction, earnings season rolls on. So far 74% have exceeded expectations, well above the long run average of 64%. This is good and will probably be the thing that keeps this rally going. Of course we will have pullbacks. We are overdue for a 5-10% correction but there is no way to predict when so it's best not to try. We haven't even had a 3%er in over 200 days.

We likely saw the beginnig of the "sell your losers and buy the winners" this week. Mutual funds and individual investors have differing timetables for this activity with the funds going first and individual investors later.

David A. Eckenrode
Director of Equity Management

Key Economic Releases for the coming week:

Tuesday, October 30th:
- Consumer Confidence.; 121.0 expected

Wednesday, November 1st:
- ISM Index ; 59.5 expected

Friday, November 3rd:
- Unemployment; 4.2% expected
- Nonfarm Payrolls: 310M expected

Index & Price Changes for week ending 10/27/17	
DJIA– 23,434.19	Rose 105.56 points
NASDAQ– 6701.26	Rose 72.21 points
S&P 500– 2581.06	Rose 5.85 points
S&P Small Cap 600– 916.43	Rose 2.68 points
90 Day T Bill– 1.09%	Yield Fell .01%
2 yr TSY– 1.60%	Yield Rose .03%
5 yr TSY– 2.04%	Yield Rose .03%
10 yr TSY– 2.43%	Yield Rose .05%
30 yr TSY– 2.94%	Yield Rose .04%
Oil- $ 53.90*	Rose $2.44 per barrel
Gold- $ 1273.40*	Fell $7.70 per oz.
Unleaded Gasoline*-$1.77	Rose $.11 per gallon
Euro- $ 1.1599	Fell $.0187 against the $

** Wholesale price for NY Mercantile Exchange traded cont*

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Yields Are Slowly Improving

As the snow is starting to fall here in Minnesota, it seems that the best days of fall may now be passing. But as we look back at the last couple months in the bonds market—better days, at least for yield hungry buyers, are starting to arrive. Interest rates have been slowly marching higher since the unofficial end of summer. On a percentage basis, the short end of the curve has made the most dramatic moves, but even the intermediate and long end have increased. Since Labor Day Weekend, the 2-year Treasury has gone from a low of 1.27% to around 1.60%. The 10-year Treasury dipped to 2.05% before reaching around 2.46% on Thursday. And the 30-year which marked a low of 2.66% was flirting with 3% this week. As rates are moving up, we continue to favor shorter to intermediate maturities for both tax-exempt and taxable portfolios, as shorter bonds have less pricing volatility than very long dated maturities. But there are increasing opportunities to start moving the average maturity out a bit further in that range.

On the tax-exempt side this week, we were buying bonds like a 9-year Missouri Valley IA (A-rated) water revenue bond. It was priced to yield 1.50% to the call in 2018, but jumps to a 2.80% yield to maturity if not called. An example of what we were finding on the taxable side was a 5-year Capital One Bank (Baa1/BBB-rated) bond offered at a yield of 2.97%.

When long dated bonds pay higher yields, is there a big cost to staying short? We would argue the benefits outweigh the risks. On the government bond curve, the 2-year note offers 55% of the yield paid on the 30-year bond. That's over half at just 2-years! The 10-year offers about 85% of the yield on the max duration 30-year bond. As we have been saying here lately, there are increasing opportunities to move maturity structures out a bit to add yield in this market. But with a curve that flattens as dramatically as this after about 10-years, maxing out on duration for yield right now just doesn't pay.

Jon F. Lynn
Senior Analyst & Portfolio Manager