Stonebridge Market Wrap

July 21, 2017

For the week ending July 21, 2017

It is still way too early in the second quarter earnings season to make any calls but for the most part, we are liking the results so far. The next couple of weeks are a flood of reports so stay tuned. It seems like the reports exceed expectations about 60-65% of the time, so that is your benchmark.

This week saw the market vacillate between last week's high and about 150 points down in the Dow. The S&P and NASDAQ traded higher by a bit. It is an amazing thing to watch the market defy history and logic and continue to make new highs in spite of all of the caterwauling politically. Apparently waiting on the long promised health care reform and tax reform is not bothering investors as much as the optimism generated by the global lift in the markets combined with the perception that we have a very pro-business administration in power. Next week, we get the first look at the second quarter GDP. The consensus is for a 2.8% initial read which is an improvement from the first quarter's 1.4%. The Fed seems to be on hold for a bit on the back of slow inflation and lower energy prices. People are liking the idea of the Fed not being too aggressive in raising rates and that idea seems to have given the green light to equity buying.

So for now, stay pretty much invested, mind position sizes and if you are the nervous type maybe pare back exposure to red hot sectors.

David A. Eckenrode
Director of Equity Management

Key Economic Releases for the coming week:

Tuesday, July 25th:
- Consumer Confidence; 117.0 expected

Thursday, July 27th:
- Durable Goods Orders; +5.0% expected

Friday, July 28th:
- 2Q GDP; 2.8% expected

Index & Price Changes for week ending 7/21/17	
DJIA– 21,580.07	Fell 57.67 points
NASDAQ– 6387.75	Rose 75.28 points
S&P 500– 2472.54	Rose 13.27 points
S&P Small Cap 600– 868.25	Rose 4.71 points
90 Day T Bill– 1.03%	Yield Rose .12%
2 yr TSY– 1.34%	Yield Fell .01%
5 yr TSY– 1.80%	Yield Fell .06%
10 yr TSY– 2.23%	Yield Fell .09%
30 yr TSY– 2.80%	Yield Fell .11%
Oil- $ 45.95*	Fell $.62 per barrel
Gold- $ 1259.90*	Rose $32.30 per oz.
Unleaded Gasoline*-$1.57	Rose $.01 per gallon
Euro- $ 1.1674	Rose $.0207 against the $

** Wholesale price for NY Mercantile Exchange traded contract*

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Key 2017 Economic Themes

Expected US GDP Growth: 1.5% - 2.5% average for the year

- Faster growth in the first half but slowing in the second half of the year

Inflation: 2% - 2.5% for both Consumer Price Index (CPI) and Core CPI

- We expect the Federal Reserve to push the federal funds rate to 2% by year-end

Interest Rates: 10-Year U. S. Treasury rate remaining relatively stable, 2.50% - 3% range

- Short-term rates to rise higher than most expect causing a flattening of the yield curve
- Long rates relatively stable but moderately higher by year-end

Employment: 1.2 million new payroll jobs

- Unemployment, currently at 4.3%, will continue to drift lower
- Wages – continuing upward pressure

U.S. Dollar: potential for volatility but, on average, little change for the year

Global Trading Partners: Growth outlook stabilizing and improving

- Relaxed monetary policies continue, but a change could be near
- Additional stimulus needed through fiscal policies and structural reforms

Investment Strategy:

Current Economic Expansion: Expansion now in its eighth year is on track to be one of the longest on record, albeit one of the slowest

Inflation: Continuing to push above the Federal Reserve's target of 2%

Federal Reserve: Expected to hike short-term interest rates at least one more time in 2017

Equities:

- We are cautiously optimistic on stocks and believe the environment ahead will be much more favorable toward stock pickers rather than passive index investors
- We believe this is an opportunity to re-evaluate investor objectives and risk tolerances

Bonds:

- Begin to opportunistically take advantage of higher yields
- Improve portfolio yield through gradually increasing maturity structures
- Muni bond yields remain relatively attractive

The Stonebridge Portfolio Management Team

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