Stonebridge Market Wrap

July 28, 2017

For the week ending July 28, 2017 It is getting hard to write about the week's market action when nothing ever seems to change. Volatility; gone. Market averages; new highs. Bond yields; a bit lower. Earnings; good for the most part. Washington; what *can* I say?

This week, amid a flood of earnings reports, the Dow went higher again. Do not get me wrong, I like higher markets. It beats big downers any day. For example, on Friday two of the NASDAQ's biggest names were down big; Starbucks and Amazon. You would have thought that this kind of action would drive the NASDAQ down. Wrong. I mean, at one point Starbucks was down 10% and Amazon was down over 3%. The punishment was the NASDAQ fell by .1%. Even with the summer doldrums and traders sipping chardonnay while wearing seersucker bathing suits in the Hamptons, nothing really happens. It is hard to buy the dip if the only dip we see is next to a bowl of chips.

Next week rings in the beginning of August (can you believe it?). We get more earnings reports of course but also get the Institute for Supply Management and unemployment report. We should get a good look at how things are progressing economically as the first month of the third quarter ends. The two big indices are up about 10% for the year, so far, and the NASDAQ is up about 19%. We need the economy and, therefore, earnings to continue at this moderate pace to go much further in the markets. The second quarter GDP came in at 2.6% on Friday. We will get revisions to this number in August and September, hopefully to the upside.

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Director of Equity Management

Key Economic Releases for the coming week:

Tuesday, August 1st:

- ISM Index; expected

Thursday, July 27th:

- ISM Services Index; expected

Friday, July 28th:

- Unemployment; expected
- Non-farm Payrolls; expected

Index & Price Changes for week ending 7/28/17	
DJIA– 21,830.31	Rose 250.24 points
NASDAQ– 6374.68	Fell 13.07 points
S&P 500– 2472.09	Fell .54 points
S&P Small Cap 600– 865.00	Rose 3.25 points
90 Day T Bill– 1.08%	Yield Rose .05%
2 yr TSY– 1.31%	Yield Rose .01%
5 yr TSY– 1.83%	Yield Rose .03%
10 yr TSY– 2.29%	Yield Rose .06%
30 yr TSY– 2.90%	Yield Rose .10%
Oil- $ 45.95*	Rose $3.74 per barrel
Gold- $ 1275.60*	Rose $15.70 per oz.
Unleaded Gasoline*-$1.57	Rose $.01 per gallon
Euro- $ 1.1756	Rose $.0082 against the $

** Wholesale price for NY Mercantile Exchange traded contract*

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Bond Yields and What They Mean

In the bond world there are several different types of yields which can sometimes be confusing to investors. There is a yield to call (YTC), yield to maturity (YTM) and current yield (CY). These are all based off the price of the bond and the bond's coupon, but have different meanings.

First we should look at what a coupon is and how it is different from yield. A coupon is the stated rate that will be paid out to the investor. For example, if you bought a 10,000 bond with a 5% coupon, you would get annual payments of $500 (10,000 x 0.05) for the life of the bond.

Now is when things sometimes start to get a little confusing for investors. The current yield is when you take the annual income that is generated by the bond (the $500 in the previously mentioned example) and divide that by the current price. There is only one time when this will match up with the coupon and that is when the bond is at par. An example of how current yield works: Say the price of the bond in the previous example increases to $101. Now the bond is worth $10,100. Your income of $500 remains the same. Your current yield is $500/$10,100 = 4.95%. Notice how the yield is lower than the coupon. Current yield will change daily and is used more as a snapshot of current market conditions, not an indicator of total return over the life of the bond.

That leads us to yield to maturity and yield to call. These formulas are more complicated, but they are a much better way to determine your total return if the bonds are held to maturity or a call date. Let's look at yield to maturity first. It factors into it the current market price, its par value at maturity, the coupon rate and length to maturity. Yield to maturity is the anticipated rate of return if a bond is held until it matures. It gives you a better indication of yield because it recognizes that the bond will mature at par versus the current price of the bond and the amount of time until maturity.

Some bonds have a provision in them where they can be called away at a stated price. Bond issuers do this to protect themselves against a decreasing interest rate environment. If rates go down and it is in their best interest to issue debt at a lower yield, they will call current bonds away and issue new debt. Because of this call provision, the yield to maturity may not come to fruition. In these cases a yield to the call date is stated in addition to the yield to maturity. The bond may go to maturity depending on the interest rate environment, but it may be called away. Investors should look at the lower of the two yields as a true indication of return.

This is a topic that we get questions about often. If you have any questions Stonebridge is more than happy to assist in explaining in further detail.

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