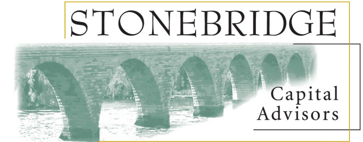

The Stonebridge Market Commentary

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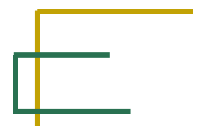
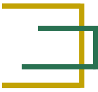




Equity Market Commentary

So far this year, we seem to be making headway until something comes along to up the volatility and send the major averages back to flat for the year. Whether it is Fed fear, Trade War chatter or Oil prices, the fears of the unknown seem to set off waves of selling every time we approach the old highs in January. While the Dow is down 1.8% this year so far, late action on Thursday and Friday managed to push the S&P to a 1.67% gain for the year and the Tech heavy NASDAQ to an impressive near 8.79% gain for the year. The devil, as they say, is in the details. We have a real wide spread between the Growth and Value sectors. Year to date, the Morningstar Large Cap Growth Index is up 12.34% and the Value index down 2.68%. Blame it on the FAANG stocks and Technology in general.

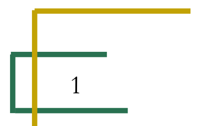
Here is a rundown of our FAANG friends:

- Facebook up 11.2%
- Amazon up 45.49%
- Apple up 9.61%
- Netflix up 105.99%
- Google up 6.97%
- Other non-FAANG notables:
- Microsoft up 15.3%
- Adobe up 36.85%
- Micron up 29.23%

Sector wise the same disparities bear themselves out. The best performing sector was Consumer Discretionary at +12.37% while the worst was Consumer Staples at – 8.27%. The sectors that are up for the year (6 out of 11 sectors) are:

- Consumer Discretionary 12.37%
- Infotech 11.54%
- Health Care 2.63%
- Energy 7.54%
- Utilities .40%
- Real Estate 1.0%
- The Down sectors are:
- Consumer Staples (8.27%)
- Financials (2.37%)
- Industrials (3.77%)
- Telecom (7.64%)
- Materials (2.01%)

So the first half is in the bag. What about the rest of the year? With interest rates edging up, a few trade skirmishes heating up and oil prices at a four year high there are plenty of negatives to occupy investors. On the other hand, the economy is strong, unemployment is low and corporate profits are strong. Tax cuts are providing lift to consumers and corporate spending alike. Wages are rising and inflation remains muted. The wild cards at this point are the election in November, trade tariffs and the pace of Fed tightening. So there you have it. A few reasons to fear the market and a few to make you comfortable.



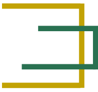
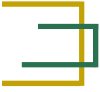


Chart 1

Since the February melt down the market has meandered between 2500 and 2800 on the S&P (Chart 1). We are well off the lows but have had trouble breaking to new highs. With the second quarter earnings season on tap we should get the answer to our range bound market soon. Will volatility remain range bound as well (Chart 2)?

So we have unanswered questions about the direction of this aging bull market. When don't we? For now I'd say the positives outweigh the negatives so it's prudent to watch your risk and exposures but stay invested.

Chart 2



Fixed Income Market Commentary

June was largely a positive month for bond market performance, bolstered by the mounting trade war uncertainties. The Treasury yield curve further flirted with inversion between 7 and 10 year yields but stopped short at about 2 basis points before retreating some. Municipal yields didn't make any dramatic moves one way or the other. Benchmark rates fell slightly on the shorter end of the curve and increased slightly on the long end. However, the landscape is still much more enticing for investors with cash coming in from maturing principal and coupon payments than it was a year ago.

We can now find some higher rated tax-exempt yields above 2% starting around three years and out. At this time last year, we would have been looking closer to 6-7 years and out to reach that level on a non-callable bond. When we're buying corporate and other taxable bonds, we can generally find 2% yields right now in one to two years and 3% to 3.50% for four to five years out. While the yield story has changed for the better for short to intermediate investors, it remains the same beyond seven to 10 years, where there just isn't much of a pick up in yield at all for increasing duration risk.

Our fixed income strategy for now continues to focus on that part of the curve, where you earn the most yield for the least amount of duration.

Sources

Data sourced through Bloomberg

Charts provided by StockCharts.com

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