The Stonebridge Market Commentary

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Chart 1

Equity Market Commentary

It seems like July went by fast. With a couple of playbooks in the mix, the market seemed to go after January's all-time highs. After a couple of months trying and failing to break above 2800, the market pushed to nearly 2850 before pulling back at month's end (Chart 1). The playbooks I alluded to are the fears over the "trade war" and a pullback in tech stocks which are (or were) the markets darlings. First in the gallows was Facebook which dropped a mind numbing 20% on weaker than expected second half guidance (Chart 2). That $120 billion drubbing was the largest one day drop for a stock in forever.

Next in the dock was Twitter. A drop in monthly average users (which came after the company deleted 50 million fake accounts, go figure) cost it 20% the first day and 8% the second day (Chart 3.)

While most of this is FAANG related, other names like Intel got caught up as well. Exacerbating the problem is the fact that the FAANG boys (Facebook, Apple, Amazon, Netflix and Google) are heavily owned by hedge funds. FAANG is also the subject of a large amount of targeted ETFs. What that means is that a lot of trading at times like these is not organic it is automated machine driven. That does not mean we should ignore it. As always, context is needed. Is the drop indicative of a broader trend taking shape or is it on more high volume drubbing that comes along from time to time when you own some high flyers? Seeing if the drop in a few names broaden out and becomes a wider shift to value stocks will tell the tale. We will not know for a few weeks or more which path the market has taken.

Chart 2

Chart 3

AS for July, we managed to have an up month. For the S&P, the score is 5 up months to 2 down months so far this year and 4 in a row. Here is the break down of the major averages.

Index	July	Year to Date
Dow	4.71%	2.02%
S&P	3.60%	5.34%
NASDAQ	2.15%	11.13%

So now we edge into the month of August. Lots of wild trading has occurred in August over the years and this one could be another one. Usually what kicks this off is the combination of slower trading volumes because of vacations and some kind of exogenous event like in 2011 when Standard & Poors downgraded U.S Treasury bonds for the first (and only) time. So, between now and Labor Day (and the kickoff to the midterm election) expect the unexpected. And stay invested.

Fixed Income Market Commentary

Municipal bonds largely outperformed corporate and US Government debt during July. The BofAML 1-10 Year US Treasury Index turned in a slightly negative (0.18%) performance for the month, while the BofAML 1-22 Year Municipal Index eked out a small gain of 0.32%. The 10-year US Treasury yield inched closer to 3% toward the end of the month but did not reach that mark until today(8/1). The slope of the yield curve mainly stayed unchanged, with Treasury yields rising about 10 basis points evenly from 2-years all the way out to 30-years. So the good news for bond buyers is rates continue to improve in attractiveness. Also, from a risk-reward standpoint the short to intermediate area continues to be the sweet spot where you pick up the most yield for the least amount of interest rate risk.

Sources

Data sourced through Bloomberg

Charts provided by StockCharts.com