STONEBRIDGE
Capital Advisors

The Stonebridge Market Commentary

March 4, 2019

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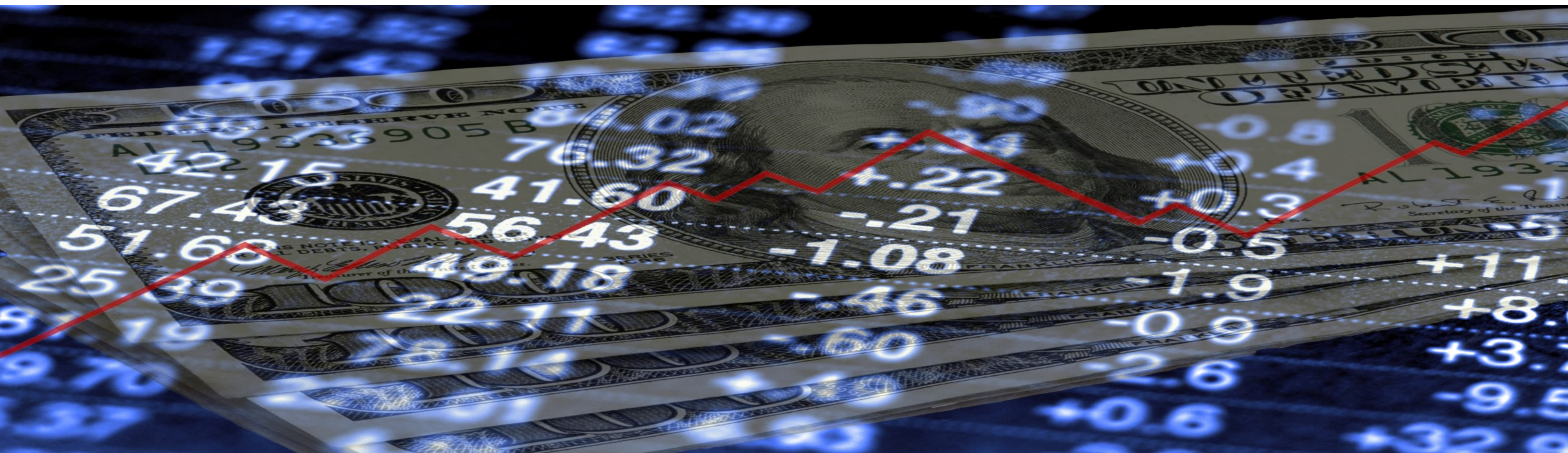
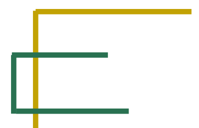
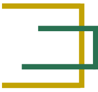






Equity Market Commentary

As the new year loomed, we had a full-fledged freak out about the terrible quarter for the market. The quarter brought a government shut down, tariffs, the Fed, and probably most importantly, fourth quarter earnings. It was feared that the litany of bad news would result in a significant drop in corporate earnings for the fourth quarter. Now that we are almost done with the reporting season, let's look at the results.

According to FactSet Earnings Insight as of February 22, 2019:

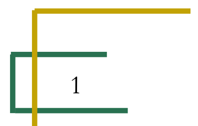
- Earnings Scorecard: For Q4 2018 (with 89% of the companies in the S&P 500 reporting actual results for the quarter), 69% of S&P 500 companies have reported a positive EPS surprise and 61% have reported a positive revenue surprise.
- Earnings Growth: For Q4 2018, the blended earnings growth rate for the S&P 500 is 13.1%. If 13.1% is the actual growth rate for the quarter, it will mark the fifth straight quarter of double-digit earnings growth for the index.
- Earnings Revisions: On December 31, the estimated earnings growth rate for Q4 2018 was 12.1%. Seven sectors have higher growth rates today (compared to December 31) due to upward revisions to EPS estimates and positive EPS surprises.
- Earnings Guidance: For Q1 2019, 68 S&P 500 companies have issued negative EPS guidance and 25 S&P 500 companies have issued positive EPS guidance.
- Valuation: The forward 12-month P/E ratio for the S&P 500 is 16.2. This P/E ratio is below the 5-year average (16.4) but above the 10-year average (14.7).

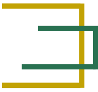
This kind of news has led the markets higher ever since 2019 began. Pessimists were wrong again. February has been a good month with returns of 2.97% (S&P), 3.44% (NASDAQ) and 3.67% (Dow).

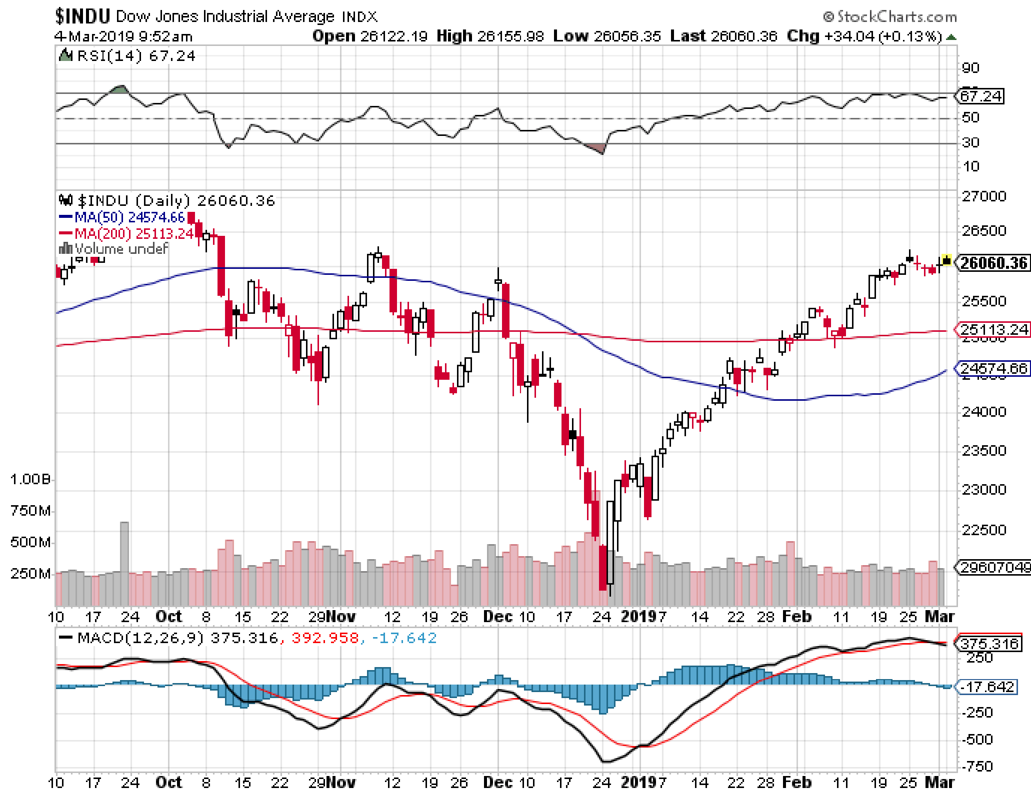
On Thursday February 28th, the BEA (Bureau of Economic Analysis) released the Q3 GDP numbers and they were better than expected at 2.6%. They probably would have been better if not for the government shutdown. Consumer spending continued to grow as did business investment. One takeaway was intellectual property spending which grew at 13.1% and R&D spending grew at 13.5% in the quarter. These are not numbers seen with a recession looming. Another little tidbit released by the Conference Board a few days ago was a big jump in consumer confidence. Funny thing, government shutdown ended, earnings better than feared (expected?), stock market rally, rate increases abated and confidence rises. Weird.

Once again, it appears that the correct course is that, absent any data that shows we are slowing economically, the correct thing to do during downturns is: check your risk tolerance, mind your exposures and buy the dip.

On the following page I have provided a chart that displays the last several month.







Fixed Income Market Commentary

Last month pointed out that January was a good month for bondholders. Well, the good times kept rolling in February. Municipal bonds continued to rally during the month with shorter to intermediate yields showing the most strength. Long bond prices rallied as yields fell there as well, but to a lesser degree than shorter duration paper. The 30-year AAA-rated benchmark yield broke below 3%, ending the month at 2.96%. The 10-year AAA-rated benchmark yield now stands at 2.10%. Municipal supply is up significantly over the same time period last year and cash flowing into mutual funds from investors remained positive every week for the past month. As demand for paper and yield in general has yet to let up, credit spreads on lesser rated bonds remain tight, providing less and less of a return pick-up for moving down the credit spectrum.

Benchmark municipal yields compared to Treasuries remain around 65-80% inside of 10-years, reflecting the continued strong demand for the tax-exemption. The difference narrows the further out you reach with tax-exempt to taxable yields about equal on an absolute basis on the long end.

The primary market for high-yield corporate bond deals has reemerged after a period of no issuance late last year, though it's still below year ago levels. High-grade corporate bond issuance on the other hand, has been stronger than year ago levels. Again, demand has tightened spreads and the sector has posted solid positive returns so far this year. If the trends continue, we will have the makings for a great quarter to start the year on.

Sources

Data sourced through Bloomberg and Factset.com

Disclosure: *The views expressed here reflect those of the writers as of the date noted however completeness cannot be guaranteed. They may change as economic fundamentals and market conditions change. This commentary is provided as a general source of information only and is not intended to provide investment advice for individual investor circumstances. Past performance does not guarantee future results. Please seek the advice of professionals regarding the evaluation of any specific information, opinion, advice or other content.*