The Stonebridge Market Commentary

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Equity Market Commentary

Round and round we go, where we stop nobody knows. After a bruising May loss of 6.58%, June was a rebound month (Chart 1), up 6.89—the best June since 1955. The old Dow is even better, up 7.19% for the month, its best return since 1938. Yowza. For the quarter and the year to date we are 3.79% and 17.35% respectively. This month's rise is mostly over renewed optimism for a China trade deal and a potential cut in interest rates by the Fed. So here we are with all-time highs in the stock market, the economy growing at 3.1%, unemployment at 3.6%, low interest rates and everyone seems afraid of a recession any day now. To be sure, there is a recession in our future. When, you ask? We don't know. Maybe we'll back into it like in 2007-09. Back then the GDP numbers were revised in mid 2008 to show that we had been in recession since late 2007. Heck, we have even seen a couple of attacks on oil tankers in the Persian Gulf and oil only moved about $5. Before we started fracking and became the world's largest oil producer this sort of problem would have shot oil by $50.

This will come to an end soon as we will know if the Fed cuts rates in July and also know about any progress on the trade front. It's good news that over the weekend the President and President Xi got back to bargaining. As the President is fond of saying, "we will see what happens". We will also begin the torrent of second quarter earnings reports.

So where was the action best in June? The big winner for the month was Materials at 9.16% (metals were hot), followed by our old friend, Information Technology at 6.95% (Chart 2). Even the losers turned in a positive return with Real Estate at .38% and Utilities at .40%. A very good performance all things considered on the back of a very bad May.

Something is happening of late with swings from greed to fear in the markets that I don't believe I have seen before in my 42 years in the business. Look at the fourth quarter meltdown for instance. The rout started in July with Facebook taking a big hit. Hits to the other FAANG stocks accumulated and we were off. The fourth quarter dropped an eye watering 13.97%. And then it just stopped.

Chart 1

Somehow sensing that this had gotten out of hand and things were not as dire as feared, the market just erased the whole drop in the first quarter, rising 13.07%. We saw this again in May- June where fear of a slowdown and tariffs pushed the market down by 6.58% in May and then, voila, up 6.89% in June. Remarkable. It's like the fear gauge gets ramped up, the market over reacts and in a matter of days, investors get some bit of news that stiffens the spine and we are off to the upside again.

It will be interesting to see the second quarter numbers as well as investors' reaction to them. Usually a strong start to the year presages a pretty good second half. Our second half is going to depend on the usual suspects, the economy and therefore earnings. Is the economy weak enough for the Fed to sue some of its ammo and drop rates in July? The market seems to think so.

Chart 2

Sector Name 09:54 AM ET 07/01/2019	Last % Change	1 Day	5 Day	1 Month	3 Month	YTD	1 Year	3 Year	5 Year	10 Year
Information Technology (.GSPT)	1.75%	0.14%	-0.20%	6.95%	7.08%	26.12%	13.85%	101.78%	117.36%	377.40%
Consumer Discretionary (.GSPD)	1.51%	0.25%	-0.34%	5.16%	6.08%	21.00%	9.67%	59.06%	78.50%	422.10%
Financials (.GSPF)	1.27%	1.40%	1.47%	3.26%	8.66%	15.92%	4.79%	58.46%	49.69%	186.20%
Energy (.GSPE)	1.12%	1.19%	0.15%	4.21%	-3.50%	11.13%	-15.63%	-2.84%	-35.22%	26.76%
Communication Services (.GSPL)	0.99%	0.78%	-0.81%	1.14%	3.93%	18.34%	12.71%	-7.54%	3.41%	56.72%
Health Care (.GSPA)	0.55%	0.37%	-1.17%	3.73%	2.40%	7.12%	11.40%	35.59%	51.68%	249.04%
Industrials (.GSPI)	0.54%	0.97%	0.30%	5.10%	4.89%	20.20%	8.62%	41.06%	39.38%	239.28%
Consumer Staples (.GSPS)	0.42%	0.07%	-1.02%	1.10%	4.12%	14.46%	12.93%	9.95%	30.00%	150.35%
Materials (.GSPM)	0.18%	0.86%	1.47%	9.16%	7.53%	15.96%	1.64%	31.43%	17.66%	136.24%
Real Estate (.GSPRE)	-0.65%	0.30%	-2.73%	0.40%	2.20%	18.48%	14.03%	--	--	--
Utilities (.GSPU)	-0.85%	0.52%	-2.12%	0.38%	2.01%	12.82%	15.11%	16.81%	35.82%	114.77%
S&P 500 ® Index (.SPX)	1.07%	0.58%	-0.29%	4.09%	4.86%	17.35%	8.97%	47.05%	50.02%	220.14%

Fixed Income Market Commentary

Bonds turned in yet another strong quarter. 10-year US Treasury yields fell from 2.50% at the beginning of April to 2% at the end of June. The ICE BofAML 1 to 5 Year Municipal Index rose 1.11% and the 1 to 22 Year rose 2.14% during the second quarter. The ICE BofAML 1 to 10 Corporate and Government Index returned 2.83%. Such positive quarter and year-to-date performance has been a double-edged sword for investors. It's great to see prices appreciate in your portfolio, but it also means that when you have interest or principal to reinvest, it's being moved into lower yields. If you live in New York and are trying to buy in-state bonds to lower your overall tax bill, 10-year AAA rated GO's are yielding 1.55%! The good news for investors elsewhere is that New York bonds are a bit of an anomaly from a yield standpoint, where demand mainly driven by high in-state taxes along with the cap on SALT has pushed in-state yields well below benchmark national AAA's. Similar market dynamics of demand outpacing supply in municipals should continue into the 3rd quarter as announced new issuance looks to be about half of the running average so far this year. Tempering that somewhat is the 4th of July falling mid-week this summer. The coming week will be very quiet in the bond markets as many players plan to just take it all off and enjoy an extended holiday.

Happy 4th of July everyone.

Sources:
Data sourced through Bloomberg and Stockcharts.com