STONEBRIDGE
Capital
Advisors

The Stonebridge Market Commentary

September 5, 2019

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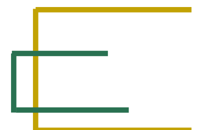
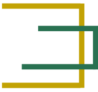




Equity Market Commentary

August (the worst month for the market) proved to be a wild month volatility wise. The main drivers of this were the Fed, yield inversion and of course, the China trade flap. Prior to the last week of the month we were staring at a negative 5% month or more. Enter a few big up days that drove the S&P higher by 2.25% and we were able to put the month to rest with a mundane 1.81% loss. Table 1 illustrates how relatively common 5+% monthly moves are. The real outlier in this chart is the lack of volatility in the period starting February 2013 and ending February 2015 when on 5% monthly moves were recorded. 2013's S&P return was 29.6% and 2014 was 11.39% by the way. Another example of this lack of volatility is the period starting February 2016 and ending December 2018. 2016 had a return of 9.54% and 2017 clocked in at 19.42%. In this 10 year period there were 5% or higher monthly moves and there were 20 instances of 10% up and 10% down. While August's daily moves were gut wrenching, sometimes reaching 700 and 800 points, the net effect for the month was rather mundane. I think this makes a pretty good case for ignoring the day to day madness, staying calm and looking for opportunities. Table 2 illustrates the ten year returns from Morningstar.

Table 1

	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec
2019	7.87	2.97	1.79	3.93	-6.58	6.89	1.31	-1.81				
2018	5.62	-3.89	-2.69	0.27	2.16	0.48	3.60	3.03	0.43	-6.94	1.79	-9.18
2017	1.79	3.72	-0.04	0.91	1.16	0.48	1.93	0.05	1.93	2.22	2.81	0.98
2016	-5.07	-0.41	6.60	0.27	1.53	0.09	3.56	-0.12	-0.12	-1.94	3.42	1.82
2015	-3.10	5.49	-1.74	0.85	1.05	-2.10	1.97	-6.26	-2.64	8.30	0.05	-1.75
2014	-3.56	4.31	0.69	0.62	2.10	1.91	-1.51	3.77	-1.55	2.32	2.45	-0.42
2013	5.04	1.11	3.60	1.81	2.08	-1.50	4.95	-3.13	2.97	4.46	2.80	2.36
2012	4.36	4.06	3.13	-0.75	-6.27	3.96	1.26	1.98	2.42	-1.98	0.28	0.71
2011	2.26	3.20	-0.11	2.85	-1.35	-1.83	-2.15	-5.68	-7.18	10.77	-0.51	0.85
2010	-3.70	2.85	5.88	1.48	-8.20	-5.39	6.88	-4.75	8.76	3.69	-0.23	6.53

Table 2

Total Return %

Index (Price)

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	YTD
23.45	12.78	-0.00	13.41	29.60	11.39	-0.73	9.54	19.42	-6.24	16.66

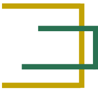
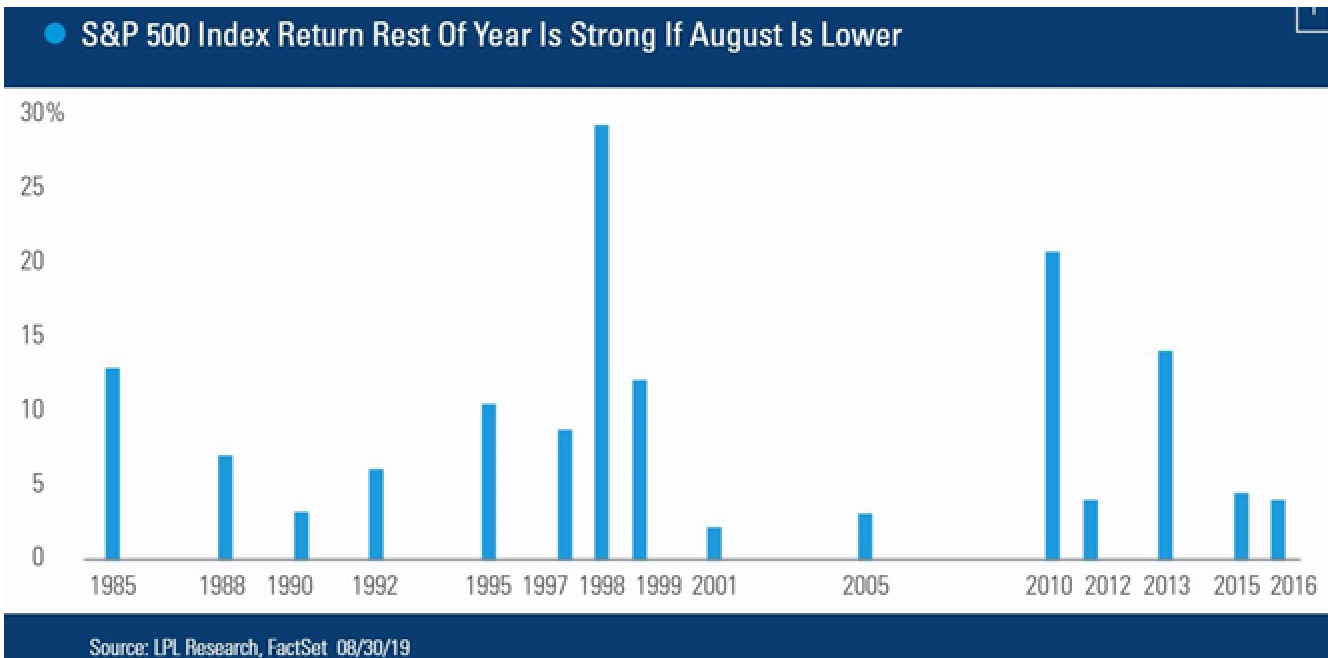
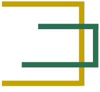


Chart 1



So what does a bad August portend for the rest of 2019 you ask? Seems up is the answer. Try to ignore September because it is many times a bad month. We have had bad Septembers in 4 of the last 9 years so don't be too surprised if we do it again. That would make it 5 out of the last ten years. Funny how the roughly 50/50 splits keep coming up, just like the split in the 5% moves in the above example (Chart 1). Trying to accurately predict this stuff comes down to a coin flip. The bottom line? Stay invested and don't give in to the constant barrage of negativity.



Fixed Income Market Commentary

Yields dipped again into multi-year low territory during August. The driver continues to be fear over the trade war's effects on the continuation of economic growth. The challenge for fixed income investors continues to be how to find value in bonds when yield spreads continue to compress across nearly all sectors of the market. The good news, if there is any right now for income investors, is that yields are still positive domestically. It's been reported that about a quarter of all government bonds globally are now trading at negative yields, even some corporate debt as well!

As we have stated here many times as the yield curve has continued to flatten, short to intermediate bonds provide the most yield to duration bang for your buck. We continue to see some value in muni bonds for higher tax rate individuals, but generally recommend favoring smaller investment grade issues over highly rated general obligation bonds, particularly those issued in high income tax states where demand for the tax-exemption in response to the SALT deduction cap has driven taxable equivalent yields down to near Treasury rates. For taxable bonds, we continue to focus on high quality companies and taxable municipal securities when we can find them at attractive yield spreads to peers. Again, our strategy there is focusing on maximizing yield at the most sensible durations possible.

Sources:
Data sourced through Bloomberg, Morningstar and LPL
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