The Stonebridge Market Commentary

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Equity Market Commentary

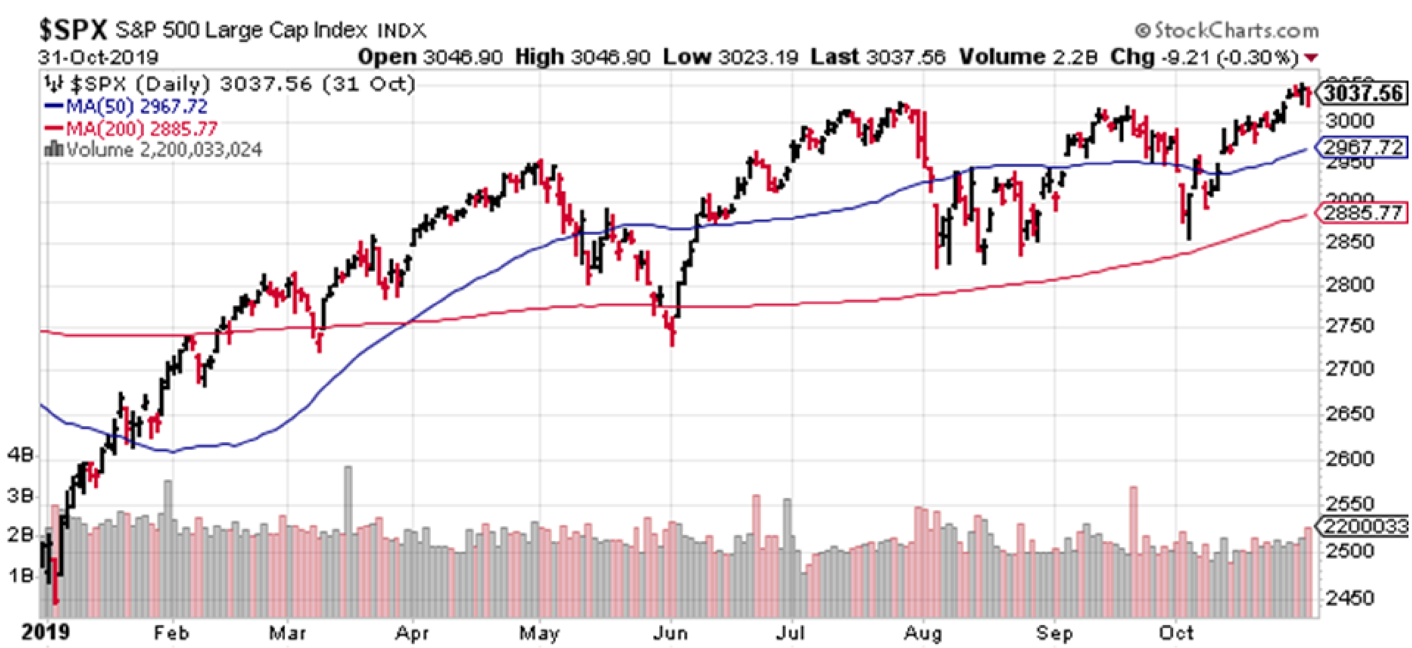
Ten down and two to go. With the 3rd quarter earnings reports about to wind down, earnings have been pretty good. That is to say they have neatly beaten lowered expectations. The underlying conditions should seem to point to trouble for the market. The economy is slowing, particularly in manufacturing, but the consumer is still spending so the broader market is holding up. Once again, pessimism is being trotted out at every opportunity. Almost daily the financial press finds some expert or another to warn of the coming crash. California is on fire (again). The Fed cut rates to bolster the economy (again). Oil is weak, sitting in the mid 50's (still). The yield curve is no longer inverted. The market is hitting new highs (again).

October, traditionally one of the worst months in the market, ignored the trend and turned in a very respectable 2.17% for the month. Year to date the market (S&P 500) is up 23.16%. This return is on the back of a terrific September (which is also one of the worst months to invest) that was up 3.23%.

The S&P 500 has been struggling at the 3000 level since July. While we kept failing to significantly breach that level, the downturns were mostly brief and not terribly significant. With the end of October at the 3037 level we appear to have made the leap over 3000 and could have a sharp rally to follow.

Last month I mentioned the ongoing impeachment inquiry. The markets, which hate uncertainty, do not seem to mind. In other news, the UAW strike is over and we are seeing some halting progress on the China trade issue. Since we are now entering a news desert of sorts, expect volatility to jump as news events dictate. Earnings are ok, employment is still a bright spot and the holiday season beckons.

Table 1



Fixed Income Commentary

October was a busy month for new issues in the municipal market, with volume surging. Issuers have been rushing to lock in low borrowing costs on new money deals as well as refinancings. Both tax-exempt and taxable state and local debt sales rose during the period. A major factor in the additional uptick in taxable municipals has been an effect felt from the Tax Cuts and Jobs Act. It took away an issuer's ability to advance refund outstanding higher interest-bearing (but not yet callable) debt with new lower cost tax-exempt bonds. However, where taxable interest rates currently stand, some issuers are finding outstanding higher yielding tax-exempt debt can actually be refinanced ahead of a call date using taxable bonds and still lower their overall interest cost. Of course, currently callable tax-exempt debt can and still is being refinanced with tax-exempt debt. Investor appetite for yield has so far easily accommodated the rush. Municipal mutual funds continue to bring in more deposits than withdrawals just to underscore that fact. The ML 1-22 Year Municipal Index was just positive for the month as a result, slightly edging out the ICE BofAML 1-10 Year US Treasury Index.

Corporate issuance has been booming as well. In just the last week of October we saw as much new debt sold as would typically be seen in a month. Lower interest rates have given companies opportunities to refinance higher coupon debt with lower interest payments. The surge in issuance looks to continue in the next month to six weeks before we start to see the typical slowdown at the end of the year. With the Fed lowering its fed funds target rate last week, both refinancings and new money deals should continue to remain attractive for borrowers in both the corporate and muni markets in the near term. If it's a sellers' market for debt, as investors it pays to be patient, look for bargains—particularly in the secondary market—and move excess cash into bonds over a reasonable amount of time as opportunities present themselves.

Sources:
Data sourced through Bloomberg, Morningstar and StockCharts.