The Stonebridge Market Commentary

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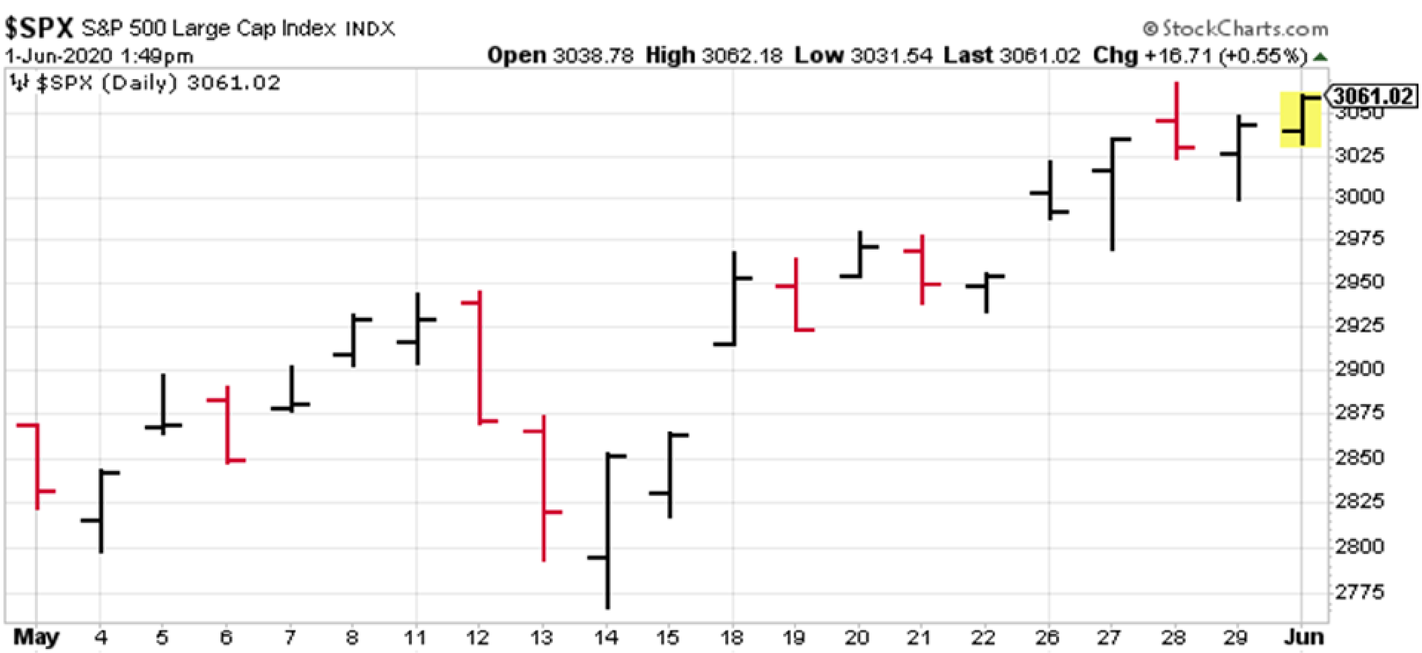
Equity Market Commentary

The merry month of May turned out to be just that, for the market at least. The S&P500 posted a return of 4.53%, the DOW came in at 4.26%, and the NASDAQ was the champ at nearly 6.75%. For the month, we had 14 up days and 7 down days. To say that these returns seem to contradict the state of things is an understatement. How is it possible that these returns are being booked with a crushed economy and all the unemployment that it entails, not to mention the pandemic death toll? It could be a combination of all the stimulus being employed and the fact that the news seems to be generally improving. There is a feeling that with all the opening up the states are allowing that the worst must be behind us. But is it really behind us? We will have a better idea by Fall. With all the improvements made in testing the number of cases is growing, but the hospitals are handling it effectively and have moved towards a more normal stance.

What will happen this summer when some businesses close permanently and their employees' unemployment runs out? The additional $600 per week enhanced unemployment runs out at the end of July for instance. With people making comparable living wages from unemployment and the looming threat of the pandemic, the economy will take time to get up to speed again.

Then there is the issue of a viable treatment to COVID and the creation of a vaccine. We are moving swiftly on both fronts and it seems that the treatment side is leading the race. The vaccine is a bit trickier because of the need to test subjects that are at risk of being infected. The eventual vaccine needs to be tolerable to a majority, efficacious, and able to be produced on a mass basis. All of this takes time to develop, and it just may be that there will never be a viable vaccine. There is no vaccine for SARS, MERS, Zika or AIDS for example.

So we are embarking on a somewhat uncertain reopening. Disney, select cruises, and some restaurants are opening their businesses cautiously. It will be interesting to see how people react. How long will it take for the majority to feel comfortable in crowds again?



As of this writing the protests over the death of George Floyd in Minneapolis are increasing around the world. The unrest spread over the weekend to Sunday night and has encompassed most of the nation's larger cities, up to 30 cities so far. This is bound to have an effect on economic activity. Cities and states are under considerable stress due to falling revenues from the shutdowns and are now tasked with paying for other expenses like additional overtime and an added police presence. We can only hope that the unrest will be resolved safely and without any undue burden.

Fixed Income Commentary

Back in March we were talking about the attractive yields that could be found particularly in tax-exempt bonds, but in corporate debt as well. Unfortunately, those big bargains came and went in just a handful of trading days. If you did not take advantage your opportunities quickly evaporated. Since then the short to intermediate end of the curve has made almost a steady one-way march into extremely low absolute levels. 10-year AAA rated tax-free benchmark yields breached 1% in May and amazingly continued lower, ending the month at a paltry 0.84%. 5-year AAA's stand at 0.38% (yes, you read that correctly). 5-year AA-rated and BBB-rated industrial corporate benchmark yields end the month at 0.97% and 1.76%. High quality corporate bond spreads have continued to tighten since March. The strong rally in high grade credits may be forcing investors further down the quality spectrum in the hunt for yield at a time in the economic cycle where we feel better quality issuers should be favored. Some speculative grade (junk) credits have already been showing signs of stress. Hertz, the car rental company, is one of the highest profile companies to file bankruptcy post COVID-19 and did so a week before month end. Interestingly, Bloomberg News noted that during the month we reached the $1 trillion mark in investment grade corporate bond issuance at a faster year-to-date pace than any other previous year. The high-yield market has also absorbed robust primary issuance. Again, surprising to see that much successful debt issuance given the pandemic and the economic slow down, but it is a testament to debt markets continuing to function well given the challenges out there.

Sources:
Data sourced through Bloomberg, Morningstar, StockCharts.com