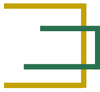
The Stonebridge Market Commentary

July 2nd, 2020

Equity Commentary provided by David A. Eckenrode
Director of Equity Management

Fixed Income Commentary provided by Jon F. Lynn
Senior Analyst & Portfolio Manager

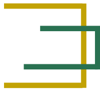


Equity Market Commentary

At the risk of sounding like a broken record, last month's action in the stock market seems to flout what we consider to be the rules under which we attempt to put some understanding to what feels like mass hysteria. The market rallies or falls and there usually is an underlying reason for the general direction of pricing. Earnings go up and are believed to be in a longer-term trend, and voila, stock prices appreciate. Easy peasy. The month of June managed a gain in spite of all the social unrest and an upswing in coronavirus cases in some states. Earnings are sketchy at best and the unemployment rate is still horrific. Yet the markets go up on a lessening of the truly horrible news cycle we lived through in March and April. Maybe less bad is good enough for now. We are now on the cusp of the second quarter earnings season. We know that because the lock downs earnings will fall, but is there a bit of a bounce back in May and June because of the states that have begun to reopen? Have investors truly written off 2020 earnings and shifted focus to 2021 and beyond?

Let's take a look at the month of May's performance and that of the second quarter. The results are pretty darned impressive. The NASDAQ was the winner with a 5.99% return for May. The S&P500 and DOW were positive but to a lesser degree at 1.84% and 1.69% respectively. The second quarter was unbelievable. Now it's important to note that the markets bottomed near the end of the first quarter. The S&P500 and DOW had their best quarter since 1998 returning 19.95% and 17.77% respectively. The NASDAQ had the best quarter since 2001, the end of the Dot Com boom. It returned 30.63%...for the quarter. Thanks Apple. Thanks Amazon.

July marks the second quarter earnings for most companies. Many companies are pulling guidance so the investing public will be on their own when it comes to trying to divine the future. This can make a murky outlook even murkier. We face a great many challenges: we have the pandemic and the lockdowns; we have an economy that was staggered; we have really high unemployment; we



have a great deal of social unrest; and, of course, we have an election. With all of this, the markets go higher.

On the breaking news front, we had the ISM manufacturing index and the jobs report come out on July 1 and 2. The ISM index came in at 52.6 (forecast 50.2). A reading above 50 indicates growth in manufacturing so this is a hopeful sign. July 2 we had the jobs report which was much better than expected with a record 4.8 million jobs created (forecast 3.7 million). The unemployment rate came in at 11.1% vs. a forecast of 12.5%. These readings support the theory that people are reacting to a "not worse but better" outlook for the economy. If this trend holds it may explain in part why the market is out in front, reflecting better times ahead.

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

Fixed Income Commentary

June was another challenging month for bond buyers looking to reinvest coupon and principal payments and earn an acceptable rate of return. Perhaps the one saving grace for investors with cash to deploy was that new supply in both the municipal and corporate markets has at least been trending up. One of the main drivers for the dearth of yield is the Fed's asset purchase programs to provide liquidity and keep rates in check. The Treasury market appears to be anticipating the likelihood that the Fed will also implement Yield Curve Control, which it has said was a possibility. The measure would involve the Fed making government bond purchases at specific maturities to limit yield levels, most likely at the shorter end of the curve. That has brought yields down significantly on the shorter dated benchmark maturities, pulling the broader bond market down as well. As recently as February 2-year Treasuries were yielding around 1.40%. They ended the month at 0.16%. 5-year yields touched a record low of 0.26% before edging up slightly to end the quarter. While it was a tough month to find palatable yields for new investments, existing bondholders' performance did benefit as a result. The BofA ML 1-22 Year Municipal Index was up 0.70% for the month and 4.28% for the quarter ended 6/30, and the ICE BofA 1-10 Year US Corporate and Government Index was up 0.61% and 2.82% for the quarter.

Have a safe and enjoyable 4th of July!