The Stonebridge Market Commentary

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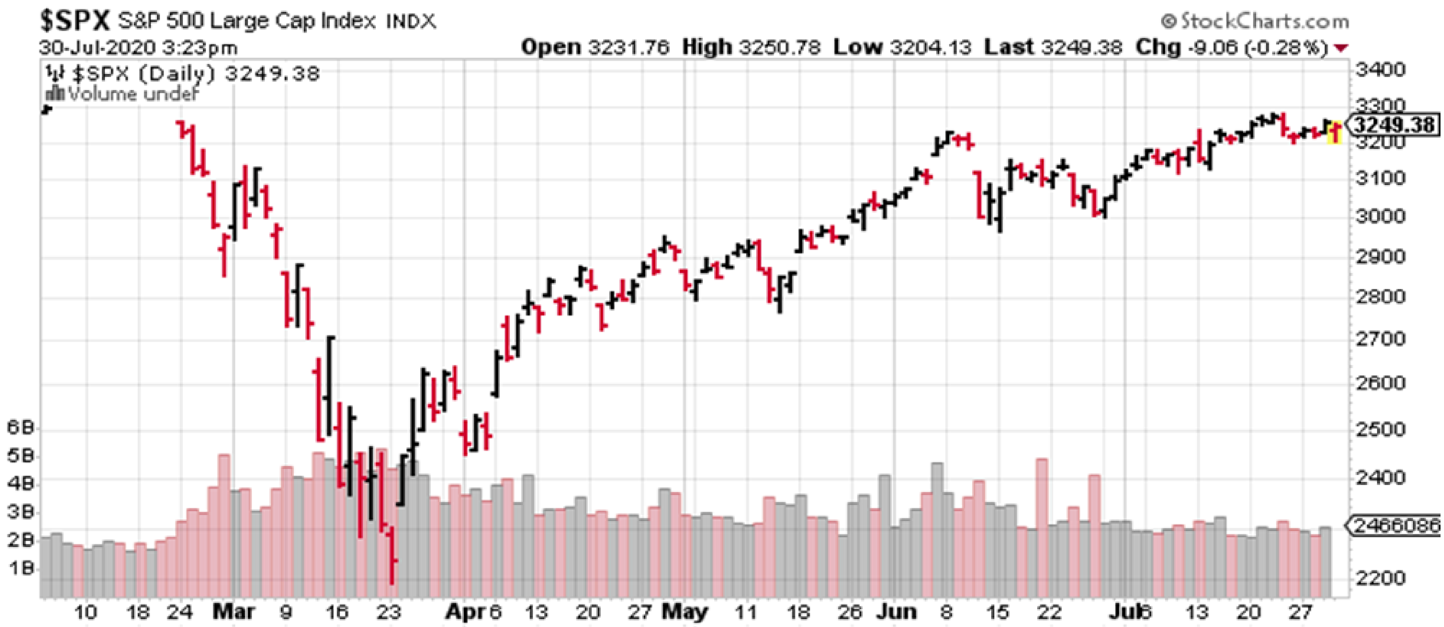

Equity Market Commentary

Four months. Since the market panic bottomed in late March, we have managed to close higher four months in a row. We are in the midst of the second quarterly earnings reports and while we are seeing some real damage in places like Boeing and Intel, for the most part earnings are coming in not as bad as some had feared. The Fed has signaled its support for the economy so everything is fine. Right? Right?

If you look at the S&P500 index you'd see that we have recovered most of the late winter losses. But if you look beneath the surface, you'd see that this recovery is dependent on a few specific stocks remaining at least at market weight, and the culprits are the FAANG stocks and Microsoft (FAANG stocks are Facebook, Apple Amazon, Netflix and Google). Coincidentally, four of the five FAANG stocks reported earnings after the market closed on July 30th and all four blew the street estimates away. All of these are having a fabulous year in the market and 3 of the 4 bounced higher by 4% to 10% on the last day of the month. The outlier was GOOGL which dropped 4%. Can't win 'em all I guess.

In other news, the dollar is weakening against most other currencies. It appears that our current spending and budget deficits have sent a chill in the currency markets. I don't think the spat we are having with China helps either. Then the Zero Interest Rate Policy has a hand in it as well. On the other hand, the gold bugs love this stuff.

As for the month, the markets continued their rallying ways. The Dow was the loser of the group if you consider a positive return of 2.3% for the month to be "losing". The S&P500 clocked in at a respectable 4.2% and the NASDAQ was the winner at 4.3%. The S&P500 is now back to positive for the year and the NASDAQ is at an all time high. Just wow.

Fixed Income Commentary

Last month we wrote about just how paltry interest rates were heading into the 3rd quarter. The situation has not improved for fixed income buyers with most sectors having managed to rally even further over the last four weeks. Rather than belabor the point again, revisiting our fixed income strategies for the current environment might be more beneficial. We believe now is the time to exercise added patience when locking in bond yields that investors will have to accept until a perhaps years-out call or maturity date. The brief spike in tax-exempt yields we saw in March of this year aside, 10-year benchmark general obligation yields are now almost half of what they were just a year ago. The investment time horizon for bond investors is generally long term while being methodical and opportunistic, especially in environments like this. While there may be no obvious near-term catalyst for Government yields to suddenly rebound with the Federal Reserve's current accommodative actions, an increase in future high-yield corporate defaults, bankruptcies or other credit stresses as we move through the coming months could cause yield spreads to widen out for the whole market, giving opportunities to add good quality company bonds at more advantageous yields. We always advocate for moving cash into opportunities as they arise, primarily focusing on value in secondary trading situations right now rather than in new issues that continue to be oversubscribed with demand and priced aggressively. At the same time, given the current rate environment and fluid pandemic situation, having a bit of dry powder may be an advantage for nimble investors going forward.

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

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