The Stonebridge Market Commentary

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Chart 1

Equity Market Commentary

After a good July and August, the market took a breather by dropping 3.92% (S&P 500). It was particularly volatile as well with lots of days exceeding 1% moves and a few that were over 3%. The fun kicked off after the Apple split on 9/1 and for most of the month the declines centered on tech stocks. Of course, tech has been where the money was made so far in 2020 and they ran up notably until 9/2 when the algorithm sell programs took over.

September results were a give back of sorts: the S&P 500 was (3.92%) and 8.47% for Q3 (Chart 1), the Dow was (1.15%) and 8.28% for Q3, and the Nasdaq was (1.51%) and 10.55% for Q3.

So here we sit, with the market having recovered some of the month's losses in the final few days of the month. The next thing on the agenda is third quarter earnings' reporting season. As always, it will be interesting how disappointments are treated. I think most investors have almost given up on 2020 earnings and are looking at the trend of the economy and unemployment among other things.

We are also rapidly approaching the 2020 elections in case you haven't noticed. The recent volatility will no doubt continue for a while, probably until well after election day owing to the mail in voting. There is a lot of Sturm und Drang (Storm and Stress) over this election. Just for fun, I looked up a chart of the run up to the 2016 election (Chart 2).

Fixed Income Commentary

Adding to an already challenging time for finding yield in the municipal market, AAA rated benchmark yields changed hardly at all during the month. High-grade corporate bond yields were largely unchanged as well, though spreads did widen some the lower you move down in credit quality, pushing yields up slightly on junkier issues. Will there be any catalysts for prices to soften as we move closer to the end of the year that will provide opportunities to pick up bonds at more attractive prices? That remains to be seen. It is hard to make a solid case for spikes in very high grades with the Fed still actively influencing the short end of the curve, the potential for a second wave of the coronavirus, and a contentious presidential election. However, if the trend continues widening credit spreads on lower rated corporate bonds, that could provide opportunities to start picking up some lower investment-grade bonds as well at better pricing. As in recent months, we continue to exercise patience while always remaining ready to quickly pick up relative value situations as soon as they arise.

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