STONEBRIDGE
Capital Advisors

The Stonebridge Market Commentary
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Equity Commentary

At the end of almost every month it seems volatility picks up and the markets give back some of the gains over the past quarter. It is always something that crops up that spooks the market. This week it was a margin call of unknown scale involving an unregulated Private Office that caused major losses for investment banks like Credit Suisse and Nomura. The amount of the problems has yet to be disclosed but it surely brings risk management to focus for the affected investment banks. Have they learned nothing is the past decade?

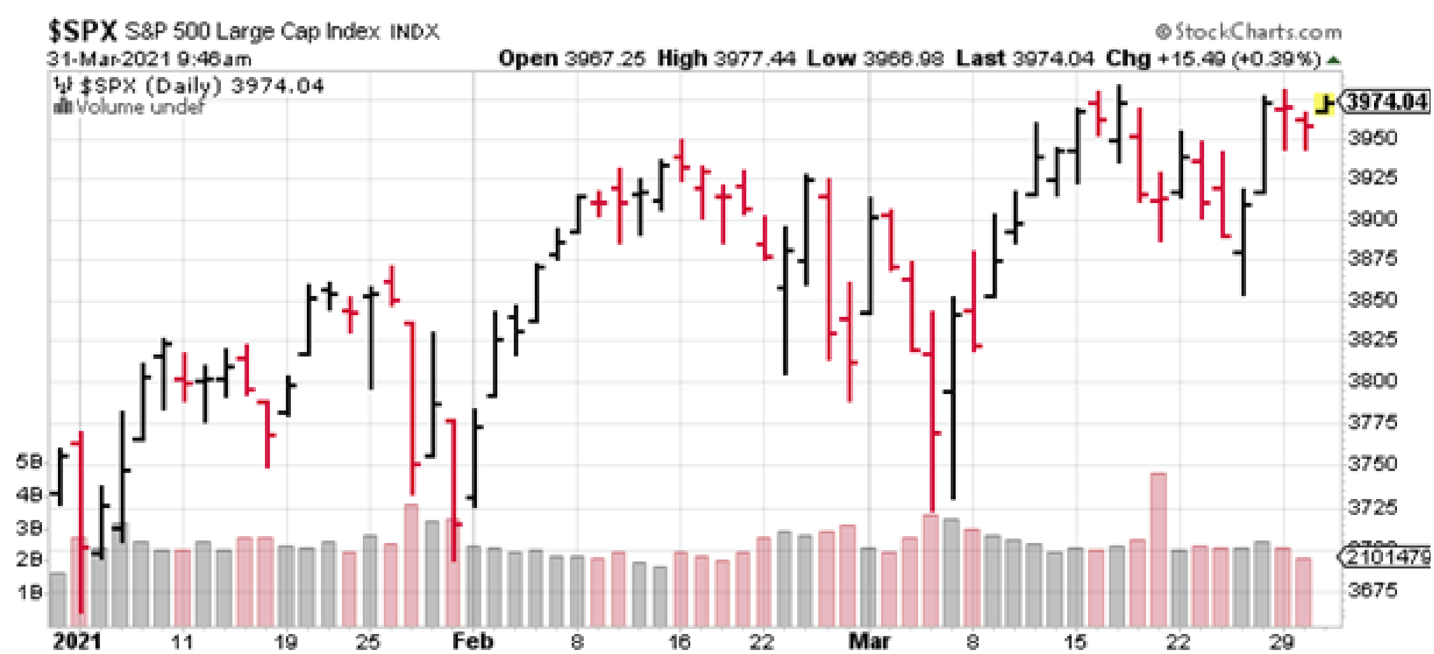
Despite that, how did we do for the month and quarter? Not so bad as it turns out. We gained on the solid economic trends and the optimism generated by the vaccine rollout. People are expecting things to get back to normal soon and the markets reflect that. The S&P 500 is on the verge of hitting 4000. It first crossed 3000 in July 2019 so this milestone seems important. It may cause the market to pause a bit, so we will just have to see.

While the averages did pretty well in March, we did see a bit of a rotation out of some tech stocks like the FAANG group while some safer names like Kraft Heinz and Proctor & Gamble did better. Whether this pattern will hold is anybody's guess. We have seen this story before. So how did we do for March and the quarter? The S&P 500 was up 5.77% for the quarter and for the month, up 4.24%. The Dow was up 7.76% for the quarter and 6.62% for the month. The NASDAQ was up 2.72% for the quarter and 0.41% for March.

Fixed Income Commentary

Junk rated U.S. companies sold a record number of bonds during the first three months of 2021. It is one last push to borrow while interest rates are still generally low and inflation expectations are starting to increase adding momentum to potentially higher future rates. Investment grade borrowing has also kept pace. The borrowing spree will likely continue in the months ahead as long as rates stay relatively low historically and companies expect future increases.

Investor demand continues to grow for green and sustainable bond issues in both the municipal and corporate bond market as more investors embrace an ESG mandate. Pilgrim's Pride sold a $1 billion bond issue at month end that was linked to certain benchmarks in its



goal to eventually become carbon emission neutral. For issuers, the increased demand for such bonds makes them attractive, in some cases even lowering their borrowing costs.

The municipal market has been waiting to see the Biden administration's infrastructure investment plan and how any passed bill might affect it. Will we see the reintroduction of Build America Bonds (BABs), the taxable securities that carried an interest payment subsidy from the Federal government? How might that change the supply of tax-exempt bonds? We will have to wait and see what any final bill ends up looking like, but the current nearly $2 trillion plan looks quite ambitious.

Increasing taxable rates led intermediate to longer dated bonds to weaker performance for the quarter, drawing the ICE BofA 1-10 Year Corporate Government Bond Index lower by (1.80%). Municipals outperformed as continued strong demand kept rates from moving completely in sympathy with taxables. The ICE BofA 1-22 Year Municipal Index fell only (0.35%).

Sources: Data sourced through Bloomberg, Morningstar and StockCharts