STONEBRIDGE
Capital Advisors

The Stonebridge Market Commentary
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Fixed Income Commentary provided by Jon Lynn
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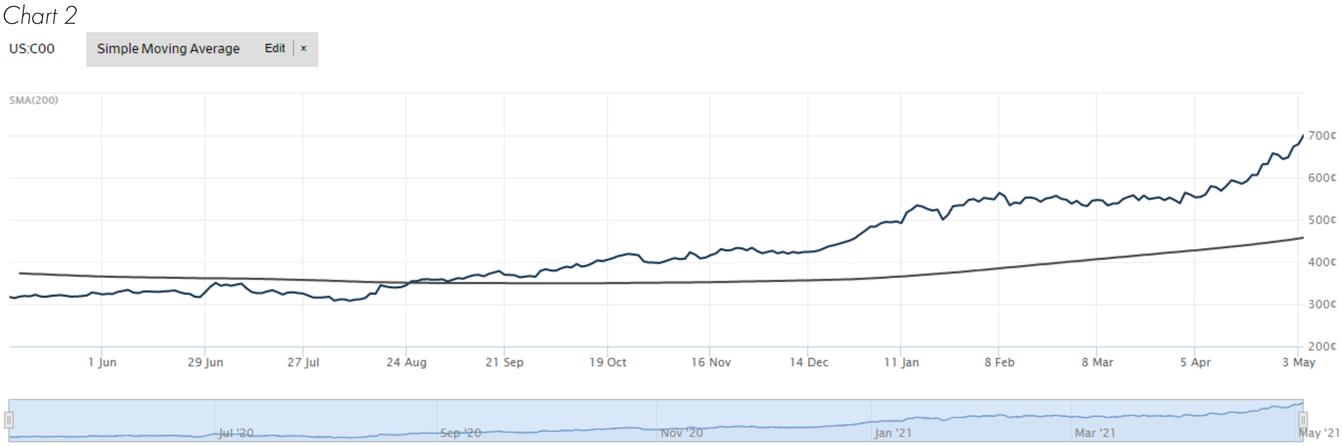
Equity Commentary

Spring is here and the economy is good. There is talk of a new "Roaring '20's" because company earnings are recovering along with the expectation that Covid restrictions are being lifted. Despite the foregoing, we entered the month of May with some volatility. Even so, April was another winner overall with the S&P 500 gaining 5.24% and 12.58% for the year (Chart 1).

We have had good times this year with all indicators pointing to higher highs. How much of this is in the market? Probably quite a bit. We do have challenges with commodity prices like lumber and corn (Chart 2) speeding ahead. We do have a real chip shortage that is slowing industries like autos where production is impaired and may be for quite some time. The talk of inflation is everywhere. The Fed seems to think that the inflationary pressures are transitory and will fade back. That may be a tall order with gasoline much higher and an administration that prefers us to use alternative energy sources. There is the move to bump the minimum wage to $15 and even if this does not happen immediately, there is pressure. All of this bears watching because it feels like we will have a bump up. Vigilance will be rewarded here.

Chart 1

Chart 2



Fixed Income Commentary

A question we have been hearing from clients and advisors alike lately goes something like this, "Isn't there a short-term fixed income vehicle alternative to sitting in a money market that pays at least SOME yield right now?" Unfortunately, the honest answer is no. And the Fed is likely to keep it that way for some time. Six-month FDIC insured tradeable CDs earn about 0.05% and around double that for one-years. That is better than two-to-three-month US Treasury bills right now which are offered at negative to zero yields. Sure, there could be some funds or other vehicles out there someone might tout as a safe way to earn a good degree more income, but always look under the hood—if it looks too good to be true, it probably is. History is littered with any number of ultra-short "safe" funds and money market alternative strategies that paid investors higher than market returns for the perceived risk until something unexpected happened.

Still, that does not mean the only alternative for yield in a portfolio is the stock market, though for many investors with longer term time horizons that could very well be a worthwhile consideration. For bond investors there are two main ways of increasing yield (in exchange for adding risk), increasing duration or lowering credit quality. Corporate bond spreads remain tight as an extended period of investors hunting for yield has largely reigned in the credit quality play for picking up justifiable returns. If you are not getting paid to take additional incremental credit risk, that really just leaves adding duration to improve yield on the most conservative portion of an investment portfolio. Overall rates are generally low in a historical context, but the curve has steepened some, so as we have pointed out before, moving out into the intermediate to longer part of the curve (mainly inside of about 10 years) adds yield while still keeping duration manageable. A laddered approach to structuring a portfolio also keeps bonds returning principal over time allowing for reinvestment at higher income levels if rates rise in the future. In times like this, revisiting the "cost of waiting" concept can sometimes help making investment decisions easier. That is, how much would interest rates need to rise in the future to make waiting in cash that is earning nothing (or even losing purchasing power to inflation) return more than making a modest laddered investment today?

	2 Year	10 Year	30 Year
U.S. Treasuries	0.16%	1.63%	2.30%
A Rated U.S. Corporate Bond	0.35%	2.37%	3.20%
AAA Municipal Bond	0.10%	0.99%	1.59%

Sources: Data sourced through Bloomberg, Morningstar, WSJ Market and StockCharts