STONEBRIDGE
Capital Advisors

The Stonebridge Market Commentary
July 6, 2021

Equity Commentary provided by David Eckenrode
Portfolio Manager

Fixed Income Commentary provided by Jon Lynn
Director of Fixed Income, Portfolio Manager

Equity Commentary

So the market see-saws between the worst week in months and the best week this year, and we are supposed to make "heads-or-tails" of this nonsense? The best advice may have been given to us during driver's training. Keep your head up and don't look at what is right in front of the car.

The markets are acting this way because of cross-currents; the economy is strong, but there are worrisome trends like inflation and a somewhat weakening economy.

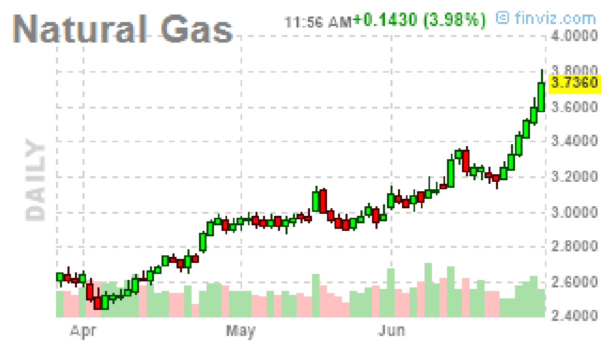
Note that the economy is not weak; it's just slowing a bit. Employment trends are good and should get better as demand recovers and the cessation of extra unemployment benefits winds down. Expect this cross-current environment to continue into the fall.

Don't look now, but there has been a change in the inflation story, at least temporarily. Take a look at the charts below.

Clearly the big push in many commodity prices has abated. Of course, not all commodities are falling. Look at energy, this bounce in energy will have impacts in many other phases of our economy if not abated.

All in all, things look pretty good going into the second half of 2021. We still have supply chain blockages and unsatisfied demands by employers for additional staffing. As with the bump inflation, these problems will be solved over time.

As for the second-quarter numbers (table 1), there has been a tug of war between growth and value, so I included the Russell Growth and Value Indices for reference.



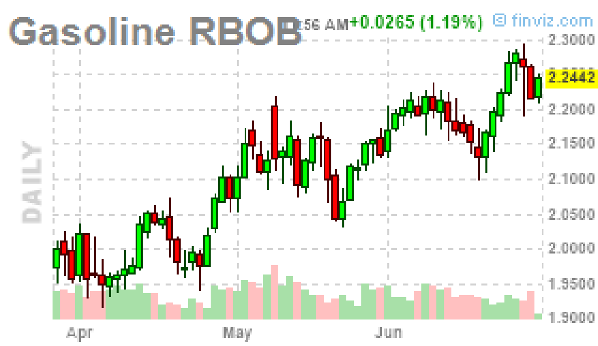


Table 1

	Month	2Q	YTD
S&P 500	2.22%	8.17%	14.41%
Dow	0.02%	4.81%	14.52%
NASDAQ	5.55%	11.37%	13.08%
Russell Growth	6.27%	11.93%	12.98%
Russell Value	(1.15%)	5.21%	17.04%

651-251-1000

info@stonebridgecap.com

Fixed Income Commentary

In June, Dallas Fed President Kaplan said that he "hoped" the Fed's stimulative market support would begin to be tapered back soon and did not anticipate a tantrum like the last time it did. The market has mostly reacted like it is being well telegraphed and not showing any significant signs of getting spooked.

The 10-year US Treasury yield fell to 1.45% after starting the month at 1.62%. So far, this year has seen mostly positive bond performance, leaving some strategists to ask if the best is now behind us and if we will see a more orderly shift to modestly higher yields in the latter half of the year.

Corporate credit spreads have steadily moved to ultra-thin levels not seen since the years leading up to the credit crisis, bolstering bond performance. The Bloomberg Barclays US High Yield Bond Index returned 2.56% in the second quarter and is up 3.62% YTD (7/1/21).

The Intermediate US Corporate Bond Index returned 1.48% for the quarter. The yield curve has steepened so far this year. While rates on the low end continue to be anchored by the Fed, yields further out have drifted higher. However, that steepness did moderate some over the 2nd quarter.

Municipal bond strength continues to benefit from supply/demand imbalances, with new investor flows into tax-exempt mutual funds showing minor signs of slowing.

Still, tax-exempt yields as a percentage of Treasuries (showing relative value compared to taxable bonds) did loosen off rock bottom low ratios in the last month, especially in the intermediate to longer term tenors—suggesting the best value for now continues to be in the maturity range we have been targeting when putting available cash to work in portfolios.

We hope you had a very happy and safe 4th of July!

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

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.