



STONEBRIDGE
Capital Advisors

The Stonebridge Market Commentary

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Equity Commentary

Seven months in a row on the upside. Quite an accomplishment in the face of all that is going on in the world. When will we have a real pullback, you ask? It is kind of a fool's errand to predict the unpredictable. After all, the market is an example of mass psychology in action. Sometimes the herd is panicked about an event and takes off to the downside only to reassess the event and then move in the opposite direction. It also seems to take some comfort in the fact that the "stock market" can move

differently than a well-thought-out portfolio of individual names. In the last few months, it seems as though any pullback would almost immediately peter out, and the buyers would return. Of course, this won't last forever, and we will eventually have an actual pullback of 10% or more; a natural pressure relief for the market. Here is a look at the last few months' actions in the S&P 500. Note the brevity of the downside (the red bar).



It seems that a ton of people are looking for a pullback and will buy when one presents an opportunity. Naturally, when such a condition exists, the correction doesn't happen. Never give a sucker an even break, I guess.

We have many challenges facing us, and yet the market makes new highs regularly. We have Covid, the Fed tapering, inflation rising, and the economic indicators missing estimates on the downside. And then we had earnings that were good and missed estimates to the upside. Markets love good earnings, so up we go for now. I don't know when these favorable winds turn against us but remember the late '90's when it went up like this for a few years? History doesn't often repeat itself, but it often rhymes.

As usual, there are several things to keep an eye on, but one of the most important is the possibility of the economy going into lockdown again, and all of the disruption that follows. Inflation would be a close second in my mind. Try and stay invested, and don't chase fads.

Here's the report card:

Index	1-month	YTD
S&P 500	3.04%	21.57%
DOW	1.50%	17.04%
NASDAQ	4.08%	18.94%



Fixed Income Commentary

August is generally a rather sleepy month for the bond market, and this year it felt like it hardly got out of bed. At one point, we were up to 7 trading days straight where AAA-rated benchmark municipal yields did not change at all from 1-30 years. In fact, monthly tax-exempt trading volume fell to a level not seen in decades. It wasn't enough to keep rates from drifting marginally higher during the month, though, pushing returns into slightly negative territory.

The 10-year US Treasury yield settled modestly higher at 1.30%. The ICE BofA 1-10 Year US Government and Corporate Bond Index turned in a 0.10% loss on the month. As one of the last corners of the market to find yield (albeit not much), junk bonds have continued to rally, with retail mutual funds focused on the sector continuing to see new investor dollars flowing in. Not surprising then, yield spreads compensating holders for the increased credit risk fell to a six-week low at the end of the month. The Fed held its annual Jackson Hole Symposium this month, and the market largely interpreted comments out of it as being dovish—that a sharp taper of asset purchases in the near term seemed unlikely. And while the Fed will likely begin to scale back its bond purchasing by the end of the year, it has also signaled that it doesn't expect to increase interest rates until it sees maximum employment and inflation above its target for some time. With the unofficial end to summer coming this weekend, we are poised to finally put the doldrums behind us and get back to higher issuance and increased trading volumes. Bring it on.

Sources: Data sourced through Bloomberg, Morningstar, StockCharts

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