The Stonebridge Market Commentary
October 4, 2021

Equity Commentary provided by David Eckenrode
Portfolio Manager

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

Equity Commentary

We begin with a line from Mark Twain's "Pudd'nhead Wilson."

"OCTOBER: This is one of the peculiarly dangerous months to speculate in stocks. The others are July, January, September, April, November, May, March, June, December, August, and February."

So it kind of came true for this September, and we'll have to see how October turns out. This is a seasonably challenging time of year in the market. On top of that, the market as been rolling without a 10% correction for more than a year so we are sort of due. It will be interesting to see if the buy the dip investors are still motivated, or will they sit on their hands this time? To add to the fun, we are at the start of the 3rd quarter earnings reports, so much rides on the reports and future guidance.

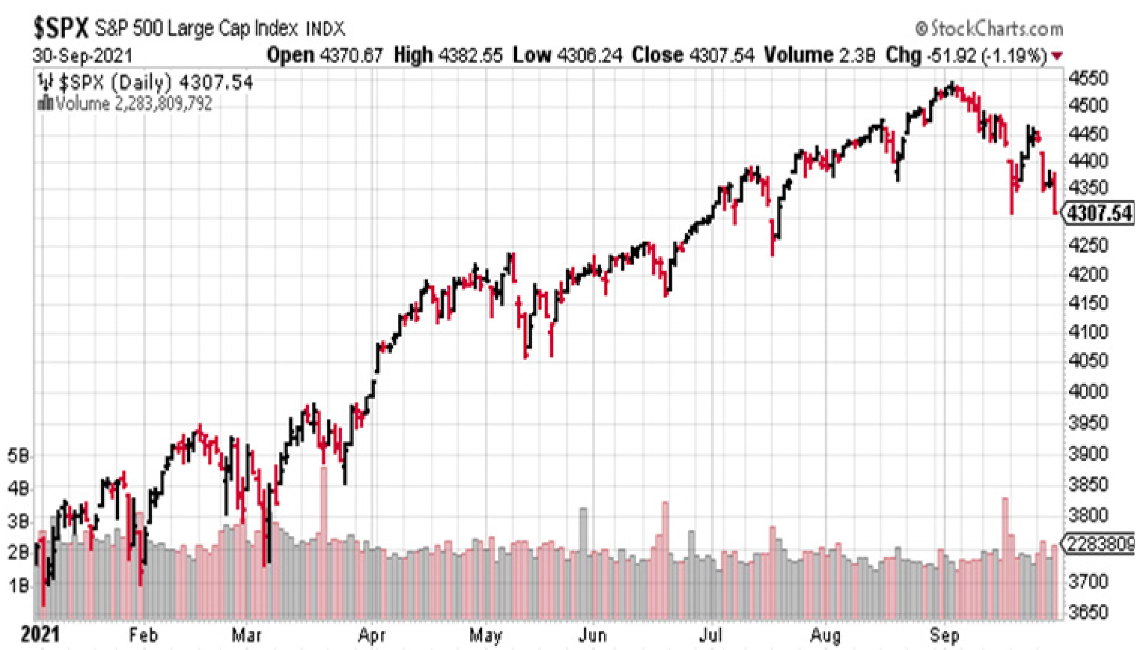
Our equity team took a temperature reading this week, and nobody thought that we are in for more than a garden variety 5-10% pullback, if that.

Are there challenges? You bet. For your consideration:

- Inflation has returned if only in a transitory fashion
- 10-year treasury bounced over 1.5%
- Supply chains are still disrupted, companies are revising guidance due to parts shortages
- The ports are jammed, and we don't have enough truckers to haul containers away (500M at last count)
- Congress is trying to pass historical spending and tax measures
- Oil has jumped back above $75, and natural gas is over $5.50 from $3 in July
- The Fed has indicated that they will begin to taper or is it tapir?
- Then there is the Covid never-ending story
- When will people come back to work, reinvigorating downtowns

So how did we do in September with all of this in mind? In a word, awful. We finally broke a seven-month winning streak in the S&P. See the final results below.

Index	1-month	Quarter	YTD
S&P 500	(4.76%)	0.23%	14.68%
DOW	(4.34%)	(2.11%)	10.77%
NASDAQ	(5.76%)	(0.51%)	12.11%



651-251-1000

info@stonebridgecap.com

So what is the best advice at this point? We think it will be very choppy for the next month but think there will be buying opportunities. Remember, the economy is improving, and while there are imbalances, it is still a good idea to buy some of the good companies on contractions.

Fixed Income Commentary

Rates have finally risen some to end the 3rd quarter off their summer lows, but still not meaningfully higher than we were at the beginning of July. The market has been adjusting levels to anticipate the Fed's gradual tapering back of bond purchases beginning in the 4th quarter. The sell-off, though was not much of a taper tantrum, if you can call it one. However, the back up in yields was enough to drive performance slightly negative for the quarter and affect stock valuations.

The ICE BofA 1-10 Year US Treasury Index returned -0.12% on the quarter. Other sectors of the market reacted in sympathy with Government bonds. Some corporate bond issuers delayed new deals on the rate volatility, but overall, September continued to see strong demand and tight credit spreads.

Sure, rates bounced higher, but I was a bit taken aback this week to notice a headline along the lines of "Muni Route Pauses as Primary Focus Returns." Sure, if you are a close follower of the markets, a 15 or so basis point increase in the 10-year benchmark yield is a big move when rates have been stubbornly low. But hardly anyone would look at the month-end level on 10-year AAA-rated tax-free bonds at 1.14% and think, "wow, municipal bonds have cratered." Again, rates have moved up, but essentially just back to where we were at the beginning of the quarter. Either way, rates are ever so slightly more attractive, which we will take.

Sources: Data sourced through Bloomberg, Morningstar, StockCharts