STONEBRIDGE
Capital Advisors

The Stonebridge Market Commentary
November 2nd, 2021

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Equity Commentary

Pivot!

As September was a downside bummer of a month, so was October an upside surprise. We are now a month into the fourth quarter, GDP is slipping. Some of this is due to supply slowdowns, no doubt, but what else is involved? Unemployment seems to be on a good path,, but new employees' supply is not even close to meeting demand. Even higher starting wage offers don't seem to be enticing workers back to the workplace. What we have here is a supply problem, not a demand one. You hear it every day as companies report earnings and give color to future expectations. As we see it, this mismatch will last well into 2022 and maybe beyond.

This week we saw the first-quarter GDP report. Like many reports lately, this one missed expectation. Simply put, you can't sell products you can't manufacture. And even if you can do the manufacturing part, we have a shortage of trucking available. So we have issues. We also are still dealing with issues regarding COVID as well as inflation.

So, where do we go for the balance of 2021? As I mentioned above, despite all of the challenges, we seem to be doing pretty well overall. Earnings are holding up, but there have been revenue misses, so this will probably be a trend for a while as we work through the supply issues. The Fed has intimated that inflation, while probably transitory, will probably last longer than initially thought.

One thing for sure, these supply issues will dissipate over the next few months (or longer?) as higher prices attract more manufacturing. Some retailers with tremendous market power will likely have the best shot at filling their inventory needs this holiday season. Smaller retailers may need to source more locally to stay in the game.

I think it is safe to say that we are weathering the storms of Covid, supply issues, and inflation reasonably well. Imagine how well we will do with enough chips and employees.

Index	1-month	YTD
S&P 500	6.9%	22.61%
DOW	5.84%	17.03%
NASDAQ	7.27%	20.25

Fixed Income Commentary

Interest rates rose in October, with the 10-year Treasury yield spiking up to levels not seen since the end of the first quarter; before bonds rallied some to end the month. Two-year Treasury yields almost doubled during the month, ending at 50 bps. A flatter yield curve is what you would expect ahead of the Fed slowing its accommodative policy. We will likely hear more specific details this week on its plans for scaling back the bond purchase program as wage and price inflation are picking up. Employment seems to be the component that has been slow to rebound. Corporate bond spreads remain tight, portending to potential future weakness and some performance risk, particularly for high-yield credits, which should continue while economic growth tapers off. For fixed-income investors with cash to be put to work, we continue to recommend opportunistic buying when values present themselves in secondary trading but still moderating duration. As we mentioned last month, some rates have risen again. However, even after significant percentage changes off lows, we are still in a historically low yield environment—it is just getting a little less so.

Sources: Data sourced through Bloomberg, Morningstar, StockCharts