



STONEBRIDGE
Capital Advisors

Monthly Market Commentary

July 2024 Review

MARKET COMMENTARY

Equity Review

July brought an incredible amount of excitement to what typically is the heart of the summer doldrums. With a cooler-than-expected CPI print in the beginning of the month, small and mid-caps, along with large cap value/dividend stocks advanced, while growth stocks paused. This began the most significant market rotation we've seen in the last 18 months.

Now that we are in the middle of second quarter earnings season, we are observing better-than-expected results among the "other" 493 companies in the S&P 500. Earnings results and guidance offer further support that this market rotation isn't simply an interest rate bet but more importantly fueled by an improvement in the underlying fundamentals and expectations of the average company in the stock market.

While the macro headlines suggest a sluggish economic picture, particularly in relation to increasing jobless claims, these lagging factors are not necessarily indications of forward economic health. In other words, we have relied on the Magnificent 7 as the only game in town to drive earnings guidance upward for the last two years. Now, we are growing more optimistic about the other side of the market having the ability to carry the torch - particularly when valuations have been suppressed, relatively speaking.

It is worthwhile revisiting last month's economic commentary. A month ago, we were at an extreme point in the market in terms of performance distribution, or breadth. AI-related companies dominated return, and everything else appeared to be dead money. The following 30 days resulted in a massive underperformance of AI vs. the broad market. This simply illustrates the importance of always being diversified.

Rarely is there a warning, or a reliable hint, of when market rotations are about to take place. However, if you are invested in quality companies in appropriate proportions across all sectors of the market, you will participate in the upside and are unlikely to find yourself offside when unexpected rotations or contractions develop. As always, volatility presents opportunities, and we will continue our methodical approach to analysis and portfolio management.

Fixed Income Review

This week's Fed meeting was again heavily watched as the market looked for any signals that would bolster its expectation for rate cuts beginning next month. The futures market has already been pricing in that likelihood. While still inverted overall, the yield curve has steepened some from 5 to 20 years, showing signs of a more normalizing rate environment further out.

The difference between the 2-year and the 10-year had been at one of the narrowest levels of the cycle before the yield on the 10-year collapsed at the end of the day yesterday (through 4% as of this writing). After the moves lower into month-end, longer interest rates are now down about 100 bps from the highs reached last year.

However, continuing to add some duration (out to around 7 years now) to existing portfolios still offers advantages, as rates from 2 to 5 years have compressed to a greater degree just in the last month. We might be looking at yields in the upper 4% range now rather than the 5%'s we were seeing just a week ago, but we are still locking in high-quality rates that would have been unattainable just a couple of years ago.



With a good perspective on history, we can have a better understanding of the past and present, and thus a clear vision of the future.

- *Carlos Slim Helú*



Disclosure: Advisory services offered through Stonebridge, an investment adviser registered with the U.S. Securities & Exchange Commission. The views expressed here reflect those of Stonebridge Capital Advisors as of 08/01/2024. 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.



OVERVIEW

Key Market Moves

Equity Market Moves

06/28/2024 - 07/31/2024

S&P 500:

5460.48 to 5522.30 (up 61.82)

Dow:

39118.86 to 40842.79 (up 1723.93)

NASDAQ:

17732.6 to 17599.4 (down 133.20)

Fixed Income Market Moves

06/28/2024 - 07/31/2024

2-Year Treasury:

4.71% to 4.29% (down 42 bps)

10-Year Treasury:

4.36% to 4.09% (down 27 bps)

10-Year A-rated Corporate:

5.28% to 4.95% (down 33 bps)

10-Year AAA-rated Municipal:

2.84% to 2.82% (down 2 bps)

Equities

Stonebridge's equity investment style provides a method for growth and income generation. Within this style, we utilize three equity strategies to invest in industry-leading, domestic companies with solid fundamentals. Principally, we focus on large-cap equities because they are more mature companies who offer attractive growth potential and generally experience lower volatility.

Our equity strategies are designed to achieve varying client investment goals and risk tolerances.

LARGE CAP GROWTH

est. January 2001

GROWTH & INCOME

est. March 2015

DIVIDEND INCOME

est. March 2011

Fixed Income

Stonebridge's approach to fixed income seeks to provide principal protection, asset liquidity and income generation. We manage two fixed income strategies - taxable bond and tax-exempt municipal bond - that both utilize individual securities, and are broadly diversified across sectors and issuers. We maintain a conservative risk profile, focusing on investment-grade credit. Individual security selection is made through a bottom-up approach that identifies relative value among issuers within each sector.

Our fixed income strategies are custom tailored to meet each individual client's unique investment goals and income requirements.

TAXABLE

est. December 1998

TAX-EXEMPT

est. June 1997

Disclosure: Advisory services offered through Stonebridge, an investment adviser registered with the U.S. Securities & Exchange Commission. The views expressed here reflect those of Stonebridge Capital Advisors as of 08/01/2024. 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.



ABOUT THE AUTHORS



Michael Dashner, CFA

Director of Equity, Portfolio Manager

As the firm's Director of Equity, Michael Dashner is responsible for trading, analysis, allocation, and management of the firm's equity strategies. As one of the portfolio managers on the investment management team, he works directly with clients and advisors to establish customized investment portfolios for high-net-worth clients.

Having earned his BA in Economics from the University of South Dakota in 2007 and his MBA from the University of South Dakota in 2009, Michael joined Stonebridge in 2009 as a portfolio manager. In 2014, Michael completed and received his CFA from the Chartered Financial Analyst Institute. He is also a member of the CFA Society of Minnesota, along with the Minnesota Society of Municipal Analysts.



Jon Lynn

Director of Fixed Income, Portfolio Manager

As the firm's Director of Fixed Income, one of the portfolio managers, and an owner of Stonebridge, Jon is responsible for leading the taxable and tax-exempt fixed-income team. As a member of the Stonebridge Investment Review Committee and Research Committee, he oversees credit analysis, trading, and portfolio management.

Having earned his BA from the University of North Dakota in 1999, Jon joined Stonebridge in 2006 as a senior analyst and portfolio manager. With almost 25 years of business and financial experience, Jon is also an active member of the National Federation of Municipal Analysts and previously served on the board of the Minnesota Society of Municipal Analysts.