STONEBRIDGE
Capital Advisors

Monthly Market Commentary

August 2024 Review

MARKET COMMENTARY

Equity Review

August posed an eventful month and if you blinked, you missed the largest volatility spike (refer to Graph 1) we've seen since the COVID-led economic shutdown. Oddly enough, the S&P 500 was off less than 10% (refer to Graph 2) this time and has since nearly completely recovered; in fact, the Dow Jones has rallied to all-time highs. The sell-off appeared to be sparked by a combination of events: perceived economic weakness, concerns over AI profitability and ROI, and the unwind of the Japanese carry trade. However, the economic environment does not appear to be as perilous as the initial market correction indicated.

While unemployment is trending higher, we are still, quite frankly, in the band of normal unemployment and below the long-term average. That said, the rate of change and trend is important, and the Fed is watching closely. On August 23rd, the Federal Reserve Bank of Kansas City Economic Policy Symposium in Jackson Hole, Wyoming, Chair Powell stated how we are nearing the end of the current rate environment and that the market is expecting cuts as early as this fall. With last week's GDP numbers coming in above expectations at an annualized rate of 3.0%, the Fed's goal of inflation reduction without contracting growth appears to remain in the cards.

Last month, the stock market's performance broadened once again, but most of the return was still earned among large cap companies. The Russell 2000 Small Cap index was one of the few areas of the equity landscape to print a negative return, calling into question the market cap rotation thesis that had been gaining momentum over the last several months. On a positive note, the S&P 500 Equal Weight index outperformed the S&P Market Weight index 2.50% versus 2.43%, indicating wide participation on the upside.

Turning our attention to individual sectors, Consumer Staples, Health Care and Real Estate were the best performers for the month of August; it is not uncommon for Staples and Health Care to typically outperform in early periods of Fed rate cuts. Given the market is anticipating a string of Fed rate cuts, it is not surprising that Real Estate has caught a bid; since the beginning of the current rate environment, Real Estate has been hit the hardest, earning the spot as the worst performing sector over the scope of 4 years.

Contrastingly, Consumer Discretionary stocks underperformed in August; this sector is typically the first to show signs of a consumer spending slowdown. While we believe the U.S. consumer is still in relatively good shape, specialty retailers and discount retailers alike simply have not been able to recapture the stimulus-fueled earnings achieved in previous years. As quality businesses and brands face stock price pressure, we believe long-term opportunities will present themselves for disciplined buyers.

With the election just around the corner, more volatility is expected as well as a shift in Fed policy. We believe the biggest mistake an investor can make is selling good investments in choppy markets. Time and time again, history has reminded us that an optimal investment strategy is to have an appropriately balanced and diversified portfolio that aligns with your risk tolerance. Your portfolio's asset allocation should reflect your risk tolerance, particularly throughout the life cycle of the portfolio and when investment objectives change.

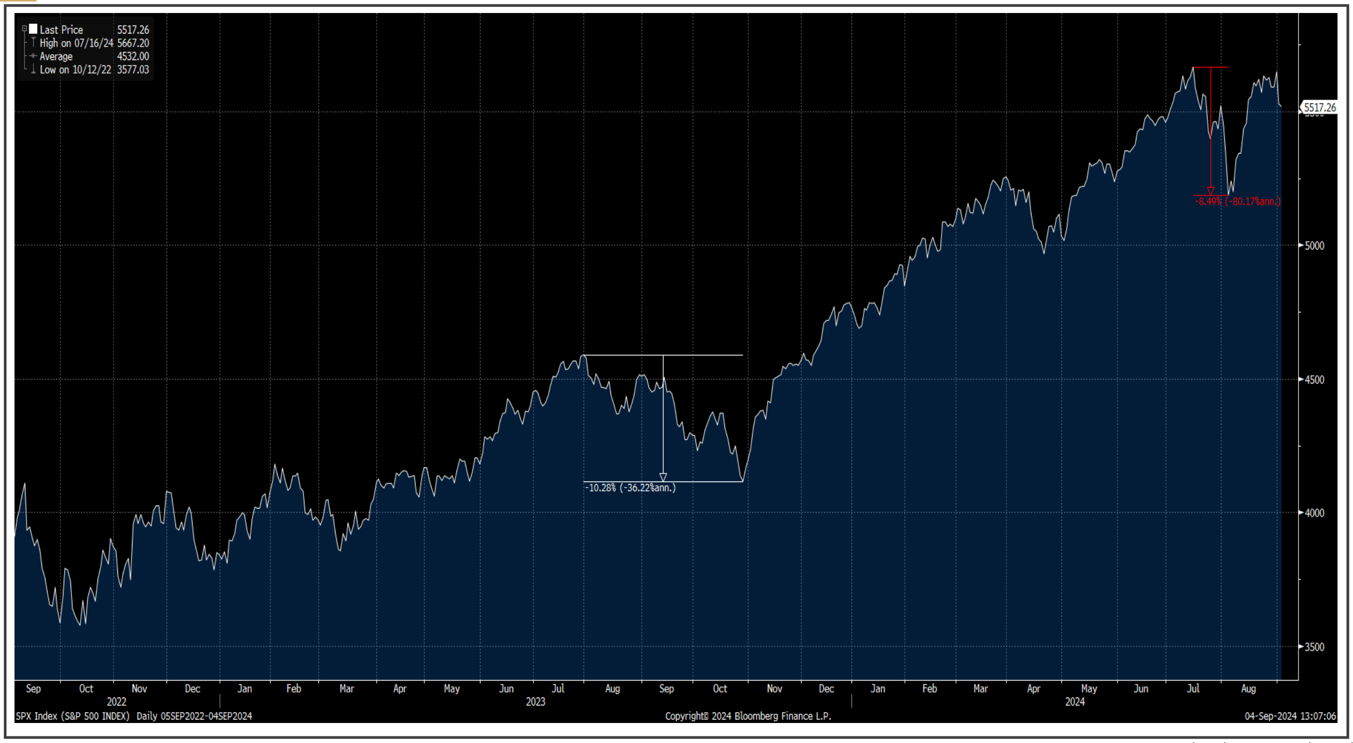
For example, once a portfolio begins making distributions in retirement, an investor's risk tolerance may reduce compared to previous years when they were in the growth and contribution stage. Similarly, investable asset levels play a role in the ability to take on risk. For example, a $5 million portfolio distributing $100,000/year has a greater ability to take on risk than a $2 million portfolio distributing $100,000/year. It is best to review your asset allocation and investment plan with your advisor and portfolio manager on an annual basis to make sure your portfolio is appropriately positioned for you.

MARKET COMMENTARY

Graph 1: VIX 10-Year

Source: Bloomberg Financial L.P. (09/04/2024)

Graph 2: SPX 2-Year



Source: Bloomberg Financial L.P. (09/04/2024)

***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 09/04/2024. 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.*

MARKET COMMENTARY

Fixed Income Review

With a rate cut this month looking all but certain, investors spent much of the last several weeks rushing cash into bonds before the tides shift any further. Strong investor demand and lower interest rates drew a record number of investment grade companies to the market on the first day of September. The companies are tapping cheaper borrowing costs and overall tight spreads to benchmark rates. The pace of borrowing for the next few weeks continues to look just as robust

That deluge of supply could benefit buyers with slightly more attractive pricing as underwriters work through placing all the new paper. One thing we will be watching for is new bonds coming with little to no call protection. In the last year or so with elevated rates, particularly with financial companies, we have seen the proliferation of embedding a very short, par call into new issues. While the coupon and offer yields look quite attractive compared with other similarly-termed bonds, the advantage is held by the borrower, not the long-term investor.

This optionality gives the issuer the ability to borrow now - either for general corporate purposes, or to push out the maturity of near-term liabilities and retain the ability to refinance as soon as interest rates drop. Instead, given where we are in the rate cycle, we continue to favor bonds with no calls or call protection of at least a couple years that may a lower likelihood of being exercised. After all, we are trying to take advantage by locking in higher interest yields before rates fall, not give them away as soon as they do.

> Great investors need to have the right combination of intuition, business sense, and investment talent.
>
> \- *Andrew Lo*

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OVERVIEW

Key Market Moves

Equity Market Moves

07/31/2024 - 08/30/2024

S&P 500:
5522.30 to 5648.40 (up 126.10)

Dow:
40842.79 to 41563.08 (up 720.29)

NASDAQ:
17599.4 to 17713.63 (up 114.23)

Fixed Income Market Moves

07/31/2024 - 08/30/2024

2-Year Treasury:
4.29% to 3.91% (down 38 bps)

10-Year Treasury:
4.09% to 3.91% (down 18 bps)

10-Year A-rated Corporate:
4.95% to 4.80% (down 15 bps)

10-Year AAA-rated Municipal:
2.82% to 2.42% (down 40 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

ABOUT THE AUTHORS

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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.

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.