



The Bryn Mawr Trust Company

WEALTH MANAGEMENT DIVISION

Weekly Market Summary August 4, 2014

Last week, the global markets digested a stream of news, with equity markets trading to the downside. Short term traders in the securities markets, starved for some volatility, were rewarded for their patience. The VIX, a CBOE option and measure of volatility, spiked higher on Wednesday and Thursday, the last two trading days of July. Amid the increased volatility in the equity markets, the 10-year Treasury bond ended the week modestly lower in price to yield 2.50%.

There were a number of events and releases that fueled the surge in equity volatility, along with a 2% sell-off in the broad domestic equity indices on Thursday (7/31). The markets' view of near term Fed policy was seriously tested with the Thursday morning release of the second quarter Employment Cost Index (ECI) by the Bureau of Labor Statistics (BLS). The ECI is a broad measure of labor costs and one that is well acknowledged as closely followed by the FOMC. The release indicated a rise of 0.7%, which is in stark contrast to the rather meager 0.3% increase in the weather-affected first quarter. The ECI release followed on the heels of Wednesday's second quarter GDP print of +4.0%. This report significantly exceeded expectations and followed the dismal first quarter GDP release of -2.9%.

On Friday, the release of July payroll employment data indicating a gain of 209,000 in new non-farm payroll jobs was below the consensus forecast of 233,000. The unemployment rate ticked up 0.1% to 6.2%. As importantly, the average workweek was unchanged at 34.5 hours and average weekly earnings were flat. These figures did not support the concerns from the faster wage growth in the ECI report. We have been focused on job growth and wage gains as a means to determine the strength of the recovery, the effects on monetary policy and final demand and positioning within and between asset classes.

Geopolitical events also remained center stage with continued unrest in eastern Ukraine and an unsuccessful cease fire agreement in Gaza. Also, concerns about Argentina declaring default for the second time in 13 years made the news. Through the noise of geopolitical events and short term trader anxieties, FactSet, Inc. reported that of the 381 S&P 500 companies that have reported second quarter earnings thus far, 73% have exceeded earnings forecasts and 65% beat revenue forecasts. The revenue growth rate shows a gain of 4.1%, exceeding the four quarter trailing average of 2.1%. We have been watching closely for revenue growth, as a key to equity price support.

At Bryn Mawr Trust, we see the broadening recovery, better corporate revenue growth and jobs data as indications of improved fundamentals. The correlation between the growth in the Fed's balance sheet and the growth in financial asset valuation is high and well documented. We believe that the Fed will err on the side of caution in terms of hiking short term interest rates too soon, although we are closely watching the monthly employment data for signs of wage push inflation. With the broad equity market fairly valued, we acknowledge that the risk/reward ratio has tilted a bit but still see equities as the favored asset class, with risks in the bond market accelerating.

The week's economic calendar is relatively light, with July's ISM Non-Manufacturing Index (8/5); Weekly Jobless Claims (8/7) and 2Q Non-Farm Productivity & Costs (8/8) among the scheduled releases. The second quarter earnings reporting season is also beginning to wind down. This week's releases include such notables as Emerson Electric and Disney (8/5); EOG Resources (8/6) and Duke Energy (8/7).

Market Indices for the Week Ending 8/1/2014

US MARKETS	Index	W/W*	YTD*	TTM*
S&P 500 Index	1925.15	-2.69%	4.15%	12.60%
NASDAQ Comp.	4352.64	-2.18%	4.22%	17.97%
Dow Jones Ind. Avg	16493.37	-2.75%	-0.50%	5.33%
Russell 2500	448.86	-2.61%	-4.19%	5.19%
S&P Midcap 400	1367.20	-2.74%	1.84%	9.05%
S&P Smallcap 600	643.29	-2.47%	-3.34%	7.99%

WORLD MARKETS	Index	W/W*	YTD*	TTM*
Frankfurt (DAX)	9,210.08	-4.50%	-3.58%	9.50%
Hong Kong (Hang Sang)	24,532.43	1.31%	5.26%	10.55%
London (FTSE 100)	6,679.18	-1.65%	-1.04%	-0.04%
Tokyo (Nikkei 225)	15,523.11	0.42%	-4.72%	7.31%
MSCI Emerging Markets	1,060.13	-1.77%	5.73%	10.97%
MSCI EAFE	1,918.08	-2.12%	0.13%	8.78%

Sector Weightings for the S&P 500	% of S&P 500	MTD*	QTD*	YTD*
Telecom	2.49%	-0.93%	1.61%	3.40%
Utilities	3.00%	0.42%	-6.52%	8.82%
Materials	3.52%	0.05%	-1.94%	5.39%
Technology	19.35%	-0.41%	0.99%	9.09%
Industrials	10.24%	-0.08%	-4.20%	-1.41%
Health Care	13.53%	-0.03%	-0.05%	9.64%
Financials	16.00%	-0.88%	-2.41%	1.53%
Cons. Staples	9.42%	0.77%	-2.70%	0.97%
Cons. Discretionary	11.84%	-0.35%	-1.72%	-1.84%
Energy	10.59%	-0.71%	-4.09%	7.09%

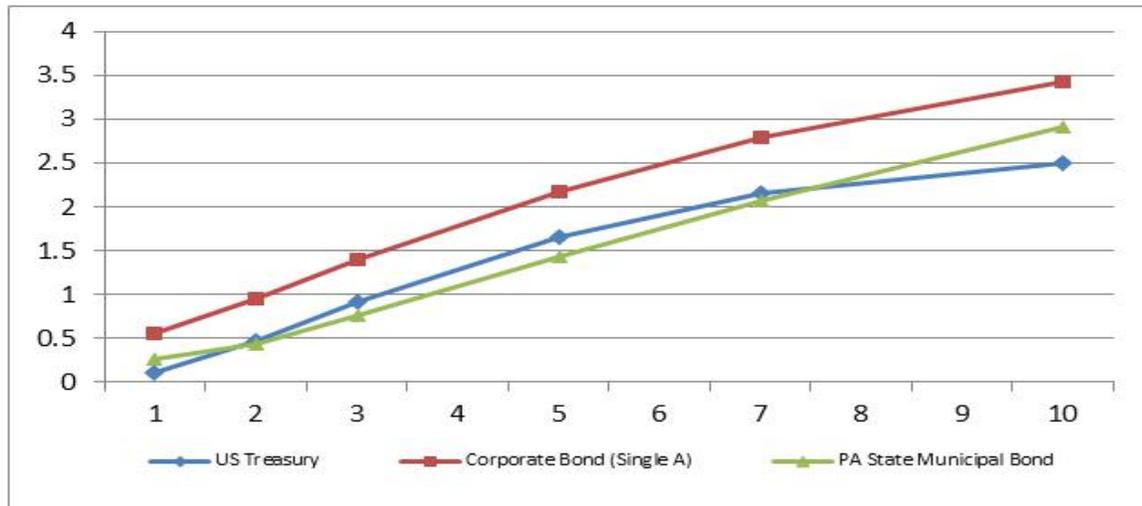
FIXED INCOME Yields	2 YR	5 YR	10 YR
US Treasury	0.47%	1.67%	2.50%
PA State Municipal Bonds	0.43%	1.44%	2.91%
Corporate Bonds	0.96%	2.18%	3.43%

* W/W = Week Over Week

* YTD = Year to Date

* TTM = Trailing Twelve Months

Fixed Income Income Yield Curves



Source: Bloomberg, L.P.

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