



Market Summary – November 28, 2016

For the week ending November 25

This summary is provided by BMT Wealth Management.

Economic Overview

Since the U.S. elections on Nov. 8, the market seems to have been embracing the “reflation” theme, given the sell-off in bonds and rise in risk assets, especially those more cyclically oriented.

At this juncture, the markets appear to be placing emphasis on the attributes of President-elect Trump’s economic plan that, in theory, could lead to more growth (i.e., tax reform, infrastructure spending, and less regulation), while seemingly overlooking items such as higher fiscal deficits and potential trade barriers that could have negative economic consequences over the long run.

U.S. economic data released over the past couple of weeks has been somewhat mixed. U.S. retail sales, which is a broad barometer for the U.S. consumer, came in above expectations, while industrial production and inflation data were below consensus forecasts. Nothing on the economic front at this point would seem to prevent the Fed from moving forward with raising interest rates at the next Federal Open Market Committee meeting in December.

Italy’s constitutional referendum is scheduled for this Sunday, Dec. 4. Like June’s Brexit vote in the United Kingdom, Italian citizens will have a chance to vote on specific legislative matters that could have a material impact on the future viability of their country. A negative outcome could prompt a sell-off in financial markets. However, many pundits thought both Brexit and

a Trump victory would have negative implications for the markets, but they have proved thus far to have had only short-lived negative effects.

Equity Markets

While U.S. equities in general have experienced strong upward price movement, there are some stark differences in the returns within both sectors and regions. International markets have actually declined, when priced in U.S. dollars, since the Nov. 8 election.

One Month Equity ETF Returns (Indexed to 100)



Source: FactSet, Inc.

Within the United States, small caps have outperformed large caps by a wide margin. In addition, interest rate-sensitive sectors such as Utilities have declined since the election, while the more cyclically oriented Financials and Industrials have posted double-digit returns.

Fixed Income

The sell-off in Treasuries has been material across the curve, as the market’s “reflation” views have prompted a rotation out of bonds.

The jump in yields has been roughly balanced across the short and intermediate part of the yield curve. The two-year and 10-year increased roughly 20 basis points (0.20%) and ended last week at 1.12% and 2.36%, respectively.

Investors pushed up short-term bond yields in anticipation of not only a rate hike before the end of the year, but also another potential rate hike in the second quarter of 2017. Long-term yields have readjusted to rising inflation expectations on the possibility of tax reform and government spending from the incoming administration.

Our View

We respect the market's rally and are encouraged by the recent uptick in corporate profits, which have been stagnant since 2014. However, there is considerable uncertainty about how President-elect Trump's economic plan will be implemented, and we would not be surprised if there were bouts of volatility as more details become available.

On the fixed income side, we believe it is prudent to limit duration risk, and our focus continues to be on short and intermediate maturities.

BMT in the Press

Bryn Mawr Trust professionals are regularly sought after by the media for their insights on financial matters. The following are some recent highlights.

Stocks End in Record Territory on Black Friday (11/25/2016)

Ernie Cecilia, Chief Investment Officer at BMT, joined [The Wall Street Journal's "What's News" podcast](#) to discuss the market rally the day after Thanksgiving. Ernie also offered expert insight about how the Senate staying in GOP hands could give President-elect Trump a better chance to enact pro-business policies.

Eyeballing Sectors, to See Which Might Thrive in the Trump Rally (11/28/2016)

Ernie Cecilia explained to [The Philadelphia Inquirer](#) how certain market sectors will be affected by a Donald Trump presidency. In particular, Ernie discussed how banks and big pharma could thrive in the near term.

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