Market Summary – December 5, 2016

For the week ending December 2

This summary is provided by BMT Wealth Management.

Economics

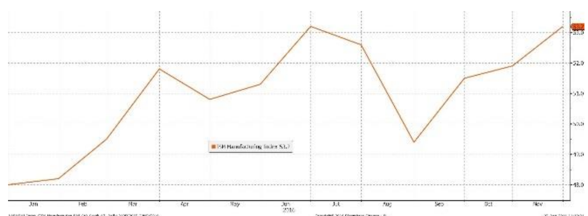
U.S. economic growth was revised higher in the third quarter, as the U.S. economy expanded at an annualized rate of 3.2%, compared to 1.4% the prior quarter. It was the best quarter for U.S. economic growth in two years. Consumer spending dipped modestly below an annualized growth rate of 3.0% in the quarter, but remained a key contributor to the ongoing U.S. economic expansion.

Consumer spending continues to benefit from a strengthening labor market.

The U.S. unemployment rate dropped significantly in November to 4.6%, a level last seen nine years ago, from 4.9% the prior month. U.S. employers maintained a healthy hiring pace, providing support for consumers and their spending needs as the holiday season approaches. However, a drop in average hourly earnings in November and a decline in the labor participation rate may lead to fewer items in the shopping cart.

Another recent domestic bright spot is that U.S. manufacturing growth continued its recent upward trend in November, despite the steady appreciation in the U.S. dollar. As noted by the Institute for Supply Management (ISM) Manufacturing Index, U.S. manufacturing remained in expansionary territory for the third consecutive month. An Index reading above 50 shows expansion, while a level below 50 indicates contraction.

ISM Manufacturing Index
12/31/2015 – 11/30/2016



Source: Bloomberg Finance L.P.

In Europe, Italy's Prime Minister Matteo Renzi announced his resignation today, after Italian voters voted against his referendum related to constitutional reforms yesterday (Dec. 4). The initial drop in the Euro currency and U.S. Treasury yields stabilized and reversed during Monday morning trading.

Equity Markets

The S&P 500 Index post-election rally faded last week, as an increase in bond yields took some appeal away from high dividend-paying companies. The Index dropped nearly 1.00%, led by Information Technology and Consumer Discretionary companies, which were down -2.90% and -1.88%, respectively. The Telecommunication and Utility sectors also ended the week in the red.

Higher bond yields were not a detriment to all sectors, however. In fact, Financials continued their march higher last week, adding an additional 0.93% return to their already lofty 12.17% post-election return. Investors are hopeful a steeper yield curve will boost bank net interest margins and overall profitability.

Fixed Income

Yields at the long-end of the U.S. Treasury curve continued to move higher last week, with the 10-year and 30-year jumping three basis points (+0.03%) and six basis points (+0.06%), respectively. They ended the week at 2.39% and 3.07%, respectively.

Earlier in the week, U.S. Treasury yields increased initially on U.S. Treasury supply concerns, followed by mid-week rumors that the European Central Bank may alter its quantitative easing program at its upcoming meeting.

Inflation expectations were modestly unchanged on the week, after a quick spike higher in oil prices was overshadowed by November's labor market report that was released on Friday (Dec. 2), which reflected a 3-cent decrease in average hourly earnings for all employees on private nonfarm payrolls. Oil prices jumped roughly 12% on the week, while average hourly earnings declined -0.1%.

Our View

Higher equity prices are always welcomed, but it is comforting when they are accompanied by a simultaneous rise in corporate profits. Questions remain regarding the ongoing sustainability of the markets' appreciation and whether the incoming U.S. administration can live up to the markets' optimism. Time will certainly tell.

BMT Wealth Management
Ernest E. Cecilia, CFA | Chief Investment Officer
610.254.2030 | ececilia@bmtc.com
bmtcwealth.com