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Market Summary – December 19, 2016

For the week ending December 16

This summary is provided by BMT Wealth Management.

Yellen Speaks

On Wednesday (Dec. 14), the Federal Reserve (the Fed) concluded its final meeting of the year and announced that it would be raising the federal funds target rate by 25 basis points (+0.25%), to a range of 0.50% to 0.75%. Of note, this is only the second time in the last decade that the Fed has increased rates.

While the bump in rates was widely anticipated, investors were more focused on guidance for future increases. On that front, the Fed now forecasts three rate increases in 2017. Looking longer term, the Fed forecasts an additional three rate hikes during 2018, and again in 2019. If these increases come to fruition, the Fed funds rate would be around 3.00%, a far cry from the virtually nonexistent yield that has existed for much of the last ten years.

Not Yet…

Investors like to focus on milestones. The Dow reaching 20,000 would certainly be a milestone, particularly when we think back to the fact that this Index traded well below 7,000 in 2009.

The Dow started last week at 19,757, and on a closing basis was only able to get within 89 points of 20,000, when it finished Tuesday (Dec. 13) at 19,911. By the end of the week, it stood at 19,843, which translated to a 0.45% return for the five days.

Since last month's presidential election, the Dow has finished higher for six consecutive weeks and returned 8.6%. Year-to-date, the Index is up 17.0%.

Smaller-sized companies, as measured by the Russell 2000 Index, finished out last week -1.7% lower. As noted in last week's Market Summary, small and mid-cap stocks have been performing particularly well since the November election. Even with the loss for the week, the Russell is still up 14.3% since Nov. 8.

Within the global equity universe, the laggard continues to be developed international equities, as represented by the MSCI EAFE (Europe, Australasia, and Far East) Index. For the year, this Index is only higher by 0.01%.

Yields March Higher

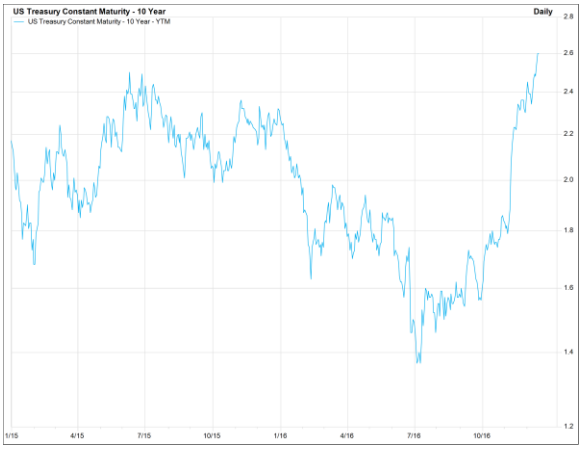
The rate on the 10-year U.S. Treasury bond continued its recent trend, moving higher for the sixth consecutive week (bond prices lower), closing last week with a yield of 2.59%.

To put the recent move into context, on Election Day (Nov. 8), the 10-year U.S. Treasury bond closed with a yield of 1.88%. While that 71 basis point (+0.71%) move may not sound sizable, it translates to a decline in the price of a 10-year U.S. Treasury bond of more than -6%.

The chart below depicts the yield on the 10-year U.S. Treasury bond since the outset of 2015, and details the rapid increase in 10-year yields since the Nov. 8 election. It also shows the recent low-water mark this past July, which was posted in the immediate wake of June's Brexit vote. With

the yield now at 2.59%, we are nearing a doubling of the post-Brexit low yield.

10-Year U.S. Treasury Bond Yield
1/1/2015 – 12/16/2016



Source: FactSet, Inc.

Our View

As noted in our comments last week, we are encouraged by the proposed "pro-business" agenda. Clearly, the equity markets have been, as well. We continue to anticipate an increase in volatility, however, as the specifics of the fiscal stimulus and tax policy become known.

With respect to the fixed-income markets, we continue to believe that staying on the short side of the benchmark duration is prudent, which should better position and protect portfolios for the rising rate environment.

Best wishes to all for a wonderful holiday!

We will publish our next Market Summary on January 3.

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