



Market Summary – February 27, 2017

For the week ending February 24

This summary is provided by BMT Wealth Management.

Seeking Economic Specificity from the Administration

Last week was relatively quiet on the global macroeconomic front, and the absence of any major market-moving catalysts left equities in the United States and abroad roughly flat from the previous week.

Small cap stocks, which are potentially the biggest beneficiaries of President Trump's economic policies, stumbled a bit mid-week as news surfaced that there could be delays in the promulgation of tax reform measures. Financial markets, which have arguably discounted at least a portion of the administration's economic agenda, are looking for clarity and specifics as to when such plans will be implemented.

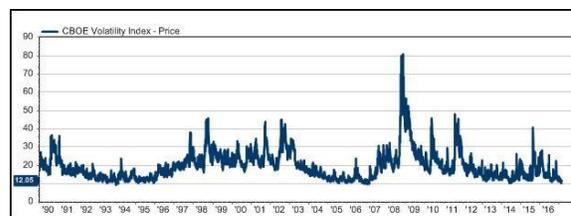
Any news that comes out of Washington regarding tax reform, deregulation, and fiscal spending, no matter how consequential it truly is, affects market prices. Tomorrow (Feb. 28), President Trump plans to address a joint session of Congress. His comments will garner a great deal of attention by the financial markets.

Equities have rallied sharply since the November election. However, there will come a time when the optimism surrounding the administration's pro-growth agenda must be met with some concrete action, or a pickup in market volatility will likely ensue.

Equity Market Observations

Stock market volatility has been on a downward trend since the 2008-2009 financial crisis. While there have been brief spikes along the way (for example, the 2011 European debt crisis, the 2015 Chinese Yuan devaluation, and the early 2016 global recession scare), volatility has dissipated as this bull market has matured. As the chart below reflects, similar patterns can be observed in prior bull markets.

**CBOE Volatility Index (VIX)
1/1990 – Present**



Source: FactSet, Inc.

While stocks have remained on an upward trajectory, market leadership has slightly shifted to a more defensive stance over the last few weeks. Small caps vs. large caps has hit a three-month relative low, and sectors such as Utilities, REITs, and Consumer Staples are gaining some ground, as interest rates have stopped rising and the yield curve has flattened.

According to FactSet, Inc., 92% of S&P 500 companies have reported earnings for the fourth quarter of 2016, registering a quarter-over-quarter blended growth rate of 4.78%. Of the

larger-weighted sectors, Financials are leading, with an earnings growth rate of 11.03%.

An uptick in corporate profits is an encouraging sign, after several quarters of stagnation.

Fixed Income Update

U.S. Treasury securities rallied last week, as political risk overseas and uncertainty regarding fiscal stimulus and tax reform at home pushed yields lower across the yield curve. Five-year and 10-year U.S. Treasury notes experienced the biggest drops, at roughly 10 basis points apiece, and ended the week at 1.81% and 2.31%,

respectively. It was the lowest close for the 10-year yield since last November.

Credit spreads continued to tighten last week, as investors have remained bullish on credit this year, a continuation from last year's strong credit performance.

Odds of a Federal Reserve rate hike in mid-March hit 40% last week, although the market is still pricing in just two rate hikes in 2017. A pickup in the Consumer Price Index is being somewhat offset with the uncertainty surrounding future fiscal stimulus.

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.

Are your emotions screwing up your investing plan? (2/17/2017)

T. Michelle Jones, CFP, Vice President and Portfolio Manager at BMT, joined the [Money Tree Investing Podcast](#) to explain how investors negatively impact their long-term financial goals when they allow their emotions to sway their decisions. Michelle emphasized the importance of working with a professional investment manager, who can help investors stay focused on their long-term financial health.

Trump Tug of War Pits Stock Bulls Against Utility Investors (2/24/2017)

Ernie Cecilia, Chief Investment Officer at BMT, shared the firm's outlook regarding utility stocks with [Bloomberg](#). Ernie explained how stock prices in the Utility sector have shifted since the presidential election and then recovered more recently, given the uncertain timing and extent of tax and regulatory reform measures.

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