Market Summary – March 13, 2017

For the week ending March 10

This summary is provided by BMT Wealth Management.

Economics

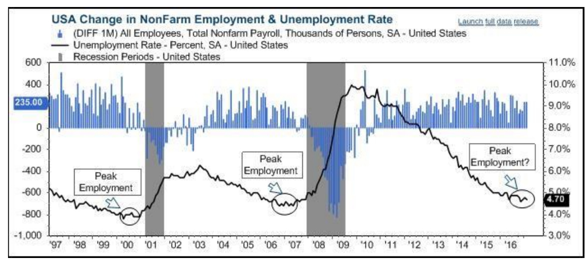
Economic data in the United States and abroad continued to show signs of strengthening last week. The week began with above-consensus readings for U.S. Durable Goods and Factory Orders, and concluded with a very favorable employment report.

Non-Farm Payrolls increased by 235,000 for the month of February, and the report included small upward revisions to jobs added in prior months. In addition, average hourly earnings rose 0.2% month-over-month (2.8% year-over-year), the unemployment rate fell to 4.7%, the under-employment rate (U-6, as measured by the U.S. Bureau of Labor Statistics) fell to 9.2%, and the labor force participation rate rose 0.1% to 63.0%.

The strong jobs report, a pickup in economic sentiment and survey measures (ISM), and a rise in 10-year breakeven inflation expectations may force the Federal Open Market Committee (FOMC) members to take a more hawkish stance on the future path of short-term rates at their meeting scheduled for tomorrow and Wednesday (March 14-15). The vast majority of investors have continued to assign a high probability of a rate hike.

Given the duration of this economic expansion, some investors and economists are debating whether full employment has been attained and the end of this business cycle is approaching.

Non-Farm Payrolls & Unemployment Rate
20 Years Ending 2/28/2017



Source: FactSet, Inc.

Equity Markets

U.S. equity markets gave up a little bit of ground and closed out last week with a modest decline. Areas of the market that will presumably be most directly impacted by President Trump's economic agenda, especially small caps, were the laggards.

The recent weakness in energy stocks persisted last week, as concerns over increased oil supply resulting from a modest uptick in rig count caused a retrenchment in oil prices.

International equity markets fared better than their U.S. counterparts and closed out the week with modest gains. The slight decline in the dollar augmented returns for U.S.-based investors invested in foreign markets. The European Central Bank met last Thursday (March 9), and elected to leave key policy rates unchanged.

Fixed Income

U.S. Treasury yields drifted higher across the yield curve this past week after a series of favorable economic reports were released. The 10-year U.S. Treasury yield rose 10 basis points (0.10%) and closed out the week at 2.58%, which is near the high that was reached in December 2016.

Some key economic reports, such as inflation readings (CPI, PPI), Retail Sales, Industrial Production, and Consumer Sentiment, will garner attention by the fixed income markets going forward. However, bond markets will be focused on this week's FOMC meeting and, more specifically, the comments made by Fed governors about the future path of rates.

Our View

Equities since the November election have risen sharply. While we do not think the equity market is grossly overvalued, it is clearly discounting a favorable macro backdrop, which could pose some downside risk if there is not a continued rise in corporate profits. The markets are closely monitoring the timing of Washington's fiscal policy implementation.

The tightening of credit spreads combined with the upward movement in rates does pose some challenges for fixed income investors. We believe it is prudent at this time to avoid taking excessive duration (measure of interest rate sensitivity) and credit risk.

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