



## Market Summary – March 27, 2017

*For the week ending March 24*

*This summary is provided by BMT Wealth Management.*

### Politics Matter

Politics inserted itself into market behavior in a significant way last week. The GOP-sponsored American Health Care Act was pulled from a vote in the House of Representatives on Friday (March 24), as GOP leadership determined there would be insufficient votes to pass the legislation.

There was no Democratic support for the bill, and the House Freedom Caucus, the conservative faction of the Republican Party, along with several moderate Republican lawmakers, provided opposition within the Republican Party. The conservative arm of the Republican Party believes that the proposed replacement to the Affordable Care Act did not alter the current legislation enough to make it a real improvement.

The defeat of a major campaign promise by President Trump is an early blow to his administration's efforts to develop a solid GOP coalition. The markets have been watching these events closely, because they begin to paint a picture for the road ahead as it relates to tax and regulatory reform.

Since early March, the domestic equity markets, as measured by the S&P 500, declined more than 2%. Smaller capitalization stocks, as measured by the Russell 2000, are off more than 4%.

Smaller companies should disproportionately benefit by a lowering of corporate taxes and fewer regulatory hurdles. It is also assumed that

the ill-fated American Health Care Act would have lowered healthcare costs at the employer level.

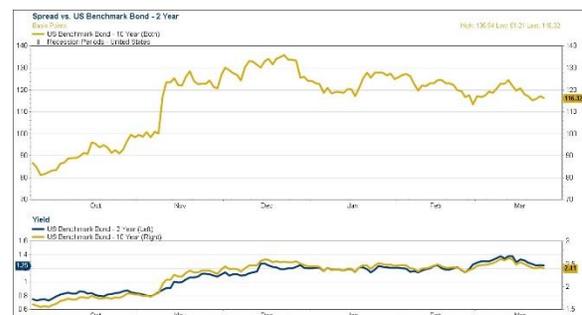
### What Is the Bond Market Telling Us?

Longer-term U.S. interest rates, as measured by the ten-year U.S. Treasury bond, bottomed in July of last year at 1.36%. The rise between July and November was gradual, but persistent.

Yields rose swiftly in the post-election period, as the ten-year U.S. Treasury bond reached a level of 2.60% in mid-December 2016.

The top panel in the graph below plots the difference in yield between the two-year and ten-year U.S. Treasury bonds over the last six months. The bottom panel plots the actual yield of the ten-year bond (gold line and right-hand scale), along with the actual yield of the two-year issue (blue line and left-hand scale).

**U.S. Treasury Bond Yield Curve  
Two-Year and Ten-Year:  
Six Months Ending 3/24/2017**



Source: FactSet, Inc.

The interesting takeaway, from our perspective, is that the slope of the yield curve (top panel) has flattened since mid-December. The bond market may be signaling doubt as to whether fiscal measures (tax and regulatory reforms, infrastructure spending, etc.) will be enacted in a timely fashion, given the difficulty of Washington politics, as noted above.

Further, a recent fall in the growth rate of median wages, despite growing payroll employment, coupled with declining energy prices, appear to have positioned the bond market in a “wait and see” mode.

### **GDP Growth and Corporate Earnings**

Fourth quarter 2016 earnings came in reasonably strong, registering a quarter-over-quarter earnings increase of more than 5%, as reported by FactSet, Inc. This was the first quarter-over-quarter increase in earnings since the fourth quarter of 2014/first quarter of 2015.

Despite some recent market weakness and improved earnings, the S&P 500 is trading at a price/earnings ratio (P/E) of 17.5 times the forward 12-month earnings-per-share estimate of about \$134. This P/E compares to a 20-year average of about 16.4 times.

We believe it is imperative that GDP, which grew less than 2% in 2016, expand at a sufficient pace to promote margin expansion at the corporate level and thus support equity prices on a sustained basis.

Going forward, we will be watching closely to see whether the defeat of the American Health Care Act is the beginning of trouble for the Trump administration, or just an early dose of on-the-job training that will lead to meaningful reform in the future.

Whatever the outcome, it all matters to the financial markets.

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### ***BMT in the Press***

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

#### **Eleven Tips to Spring Clean Your Retirement Investments (3/21/2017)**

Most people associate spring cleaning with getting their house straightened up, but Ellen Jordan, CFP, Senior Vice President at Bryn Mawr Trust, spoke to [U.S. News & World Report](#) about why retirement savers should also use this time of year as an opportunity to check in on their nest eggs and goals. Ellen explained why closely assessing these investments at least once a year will benefit your long-term financial plan.

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**BMT Wealth Management**  
**Ernest E. Cecilia, CFA | Chief Investment Officer**  
**610.254.2030 | [ececilia@bmtc.com](mailto:ececilia@bmtc.com)**  
**[bmtc.com/wealth](http://bmtc.com/wealth)**