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Market Summary – April 17, 2017

For the week ending April 14

This summary is provided by BMT Wealth Management.

Inflation and Korea

Economic news was rather limited for the week just ended, with the biggest reports coming on Thursday and Friday (April 13 and 14), when producer (PPI) and consumer (CPI) inflationary numbers were released.

CPI prices declined -0.3% from the prior month. Excluding the more volatile food and energy components, core CPI declined by -0.1%, for its first monthly decline since 2010.

Producer prices also declined by -0.1% in March, but are up +2.3% on a year-over-year basis, the biggest gain in over five years.

With the economy at relatively full employment, these numbers will continue to garner much attention, particularly with the Fed now in a tightening mode.

On the geopolitical front, tensions continue to mount on the Korean peninsula. North Korea held a military display/parade over the weekend, but then conducted a failed test of a missile launch. The United States sent the Carl Vinson Carrier Strike Group to the waters off Korea and is also working with China to coordinate a response.

On Thursday (April 13), President Trump told reporters, "North Korea is a problem. The problem will be taken care of."

Earnings Season Begins

First quarter earnings releases started to trickle in last week, with the most noteworthy announcements coming from several large banks on Thursday (April 13). As a whole, the banks announced better-than-expected earnings and saw their shares rise in morning trading. Around noon, the broader market started to sell off, and each of the banks ended Thursday in the red.

Earnings season will shift into a higher gear this week, when a broad group of companies is slated to release results.

The S&P 500 posted its second losing week in a row last week, declining by -1.1% during the holiday-shortened four-day period (the markets were closed on Friday (April 14) in observance of Good Friday). On a year-to-date basis, the S&P is now up 4.6%.

International stocks continue to have the upper hand, as the MSCI EAFE Index of international equities is ahead 6.4% in 2017, with emerging markets (MSCI EM Index) performing even better, advancing 11.8%.

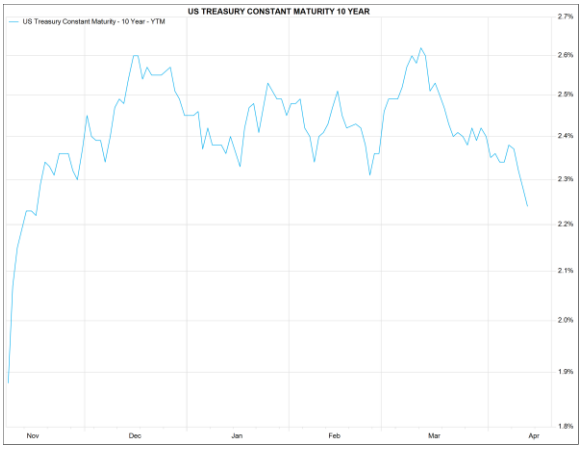
Ten-Year Yields Slip Again

The bond market saw significant price declines (yields higher) in the immediate aftermath of the U.S. presidential election last fall. As we have chronicled in prior updates, ten-year yields went from 1.86% on Election Day (Nov. 8) to 2.60% just five weeks later. No doubt this increase was

largely the result of investors pricing in the likelihood of higher U.S. economic growth due to the policies advocated by President Trump.

With little progress on the policy front, yields have been falling over the past weeks. As the chart below details, the ten-year U.S. Treasury bond has now given back more than half of the advance. The decline in yields was particularly precipitous this past week, with the yield on the ten-year Treasury falling by roughly 15 basis points (0.15%) to finish out the week yielding 2.24%.

Ten-Year U.S. Treasury Bond Yield
11/8/2016 – 4/13/2017



Source: FactSet, Inc.

"Patiently" Waiting for Action

The recent pullback in the stock market may just be a consolidation of recent gains. However, it is also likely a reflection of a growing impatience with respect to the lack of progress on the pro-growth initiatives promoted by President Trump, along with mounting geopolitical tensions. The decline in bond yields is likely an echoing of these sentiments.

Given the typical pace in Washington, patience may be exactly what is required, particularly since, we believe, equities are currently fully valued relative to future earnings expectations.

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