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Market Summary – May 8, 2017

For the week ending May 5

This summary is provided by BMT Wealth Management.

Fed Pauses, Employment Rebounds

The Federal Reserve (the Fed) held its third scheduled meeting of 2017 last Tuesday and Wednesday (May 2-3). Having just raised rates on March 15, few thought the central bank would do so again. It did not.

The meeting was held against a backdrop of an economy that saw first quarter GDP grow at a tepid pace of just 0.7%. Adding to the concerns about the underlying health of the economy, March non-farm payrolls had grown just +98,000, well below the consensus estimate of +180,000.

While no news conference was held after the Federal Open Market Committee's meeting last week, it did issue a statement that indicated it viewed the slowing in growth during the first quarter of 2017 as "likely to be transitory." This language seemingly validated the Fed's intentions to raise rates two more times over the balance of the year.

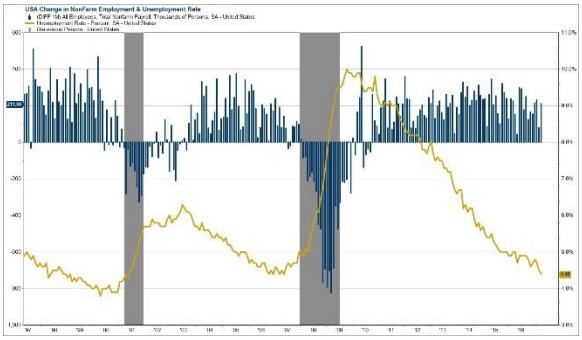
After the announcement, traders in the futures market placed a 70% probability on a rate move at the Fed's next meeting (on June 13-14), according to CME Group.

Though just one data point, the April jobs report, which was released on Friday morning (May 5), provided some "hard data" evidence that the economy did in fact firm up to start the second quarter. The expectation was for an increase in non-farm payrolls of +185,000 jobs, and the actual figure came in at +211,000.

Wages rose 0.3% for the month of April, but are still growing at a somewhat sluggish pace of 2.5% on a year-over-year basis.

The chart below details the monthly non-farm payroll increase for the past 20 years, along with the unemployment rate. This latter figure is at or near levels deemed to be full employment, which is clearly part of the reason the Fed believes it appropriate to be in a tightening mode. The last time the unemployment rate was below the current reading of 4.4% was 2001.

U.S. Non-Farm Employment and Unemployment Rate: 20 Years Ended 5/5/2017



Source: FactSet, Inc.

S&P 500 and NASDAQ Post All-Time Highs

The S&P 500 tracked higher last week, posting a gain of 0.66% for the five-day period. The largest move took place on Friday (May 5), and was good enough to lift the Index to an all-time high.

The NASDAQ did a bit better, advancing 0.90% for the week. It, too, closed out trading on Friday at a new high.

For the year, the S&P is now up 7.86%.

Looking to developed international markets, the big news was yesterday's (May 7) presidential runoff election in France, in which Emmanuel Macron handily defeated Marine Le Pen. Pre-election polling showed Macron with a sizable lead, so the outcome of the election had been widely anticipated. Still, the race was not without a bit of 11th-hour drama, as Macron fell victim to a "massive and coordinated" hacking attack just two days before the election.

In the final week of trading before the French vote, developed international stocks, as measured by the MSCI EAFE Index, posted a solid advance of 1.82%. This brings the year-to-date return on the EAFE to 11.98%.

The yield on the 10-year U.S. Treasury bond moved higher by seven basis points (+0.07%) last week, to finish out Friday's (May 5) trading to yield 2.35%. It was the third consecutive week the 10-year U.S. Treasury yield ended higher.

Waiting on Fiscal Policy

We continue to believe that domestic equity indices reflect full valuation based on earnings prospects on a 12-month going-forward basis.

The Trump administration has made tax reform, both personal and corporate, a cornerstone of its initiatives. While tax reform is never easy, progress on this front is obviously taking on added importance in the face of recent and anticipated actions by the Fed.

BMT Wealth Management
Ernest E. Cecilia, CFA | Chief Investment Officer
610.254.2030 | ececilia@bmtc.com
bmtc.com/wealth