



Market Summary – June 5, 2017

For the week ending June 2

This summary is provided by BMT Wealth Management.

Economics

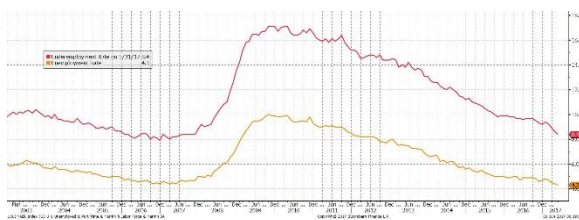
Last week, U.S. economic data indicated that U.S. growth will rebound in the second quarter, after a sluggish start to begin the year.

Personal income and spending both jumped 0.4% in April, while manufacturing growth continued in May. According to the ISM Manufacturing Index, 15 of the 18 manufacturing industries reported positive economic momentum during the month of May.

The employment report came in weaker than expected on Friday (June 2), but still reflected an expanding U.S. labor market. Nonfarm payrolls increased by 138,000 jobs in May, following 174,000 the prior month.

As shown in the graph below, the unemployment rate (gold line) and underemployment rate (red line) both inched lower in May, to 4.3% and 8.4%, respectively.

**U.S. Unemployment and Underemployment Rates:
12/31/2002 - 5/31/2017**



Source: Bloomberg Finance L.P.

The Federal Reserve (the Fed) will meet on June 13-14, and will likely discuss the data contradictions occurring in the labor market – a tight labor market without significant wage inflation.

The labor market is already operating at full employment, based on the Fed's current estimates. However, wage inflation increased a modest 0.2% in May, the same as the prior month. Over the past year, wages have increased a subdued 2.5%. Of course, positive wage growth is welcome news, but at full employment, further upward pressure on wages should become more evident.

The Fed is expected to raise the target range (currently set at 0.75% to 1.00%) at its meeting next week. Additional increases for the remainder of the year will most likely depend on the overall strength of the labor market and its impact on wage growth.

Equity Markets

Investors remained bullish on equities for the second consecutive week last week, pushing the S&P 500 Index to a new record high of 2,439. An expanding U.S. economy, improving company earnings, and continued, although dwindling, optimism for fiscal policy supported equity prices. The Index jumped 1.01% on the week.

The Telecommunications and Healthcare sectors led the Index higher, increasing 2.39% and 2.07%, respectively. Lower bond yields across the yield curve added a boost to higher-

dividend-paying companies, while hurting those more dependent on a steeper yield curve. The Financial sector was down 0.69% on the week.

Around the globe, developed international equities also performed very well on the week, with the MSCI EAFE Index increasing 1.74%. Emerging market equities ended the week modestly in negative territory.

Fixed Income

U.S. Treasury yields ended lower across the yield curve last week, on expectations that the Fed will be unable to remove accommodative monetary policy as quickly as initially prescribed and discussed. The long end of the yield curve bore the brunt of the decline, leading to an eight basis point (0.08%) flattening of the yield curve.

The two-year and 10-year U.S. Treasury yields dropped one basis point (0.01%) and nine basis points (0.09%), respectively, and ended the week at 1.29% and 2.16%.

Also on the week, investment grade corporate bonds continued to perform well, coinciding

with a rising equity market. Slow growth and low inflation have been a benign combination supporting credit spreads and corporate bond prices. Inflation expectations dropped last week on the heels of lower oil prices, while gold prices rallied.

Our View

Equity markets grinding higher and bond yields trending lower have been common themes so far in 2017, and a benefit to investors. Unfortunately, this relationship cannot continue indefinitely.

In equities, ongoing focus on company fundamentals and earnings power is of the utmost importance in this environment.

In fixed income, yield curve positioning and duration management will be imperative when yields reverse course and trend higher. Also, given the slow, but positive, economic growth environment, top-tier investment grade corporate issuers can help support additional yield within the portfolio.

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.

Nightly Business Report (5/26/2017)

Ernie Cecilia, Chief Investment Officer at BMT, joined [Nightly Business Report](#) to share his market outlook. During the appearance, he outlined characteristics of attractive stocks he and his team are evaluating on behalf of clients. (*Ernie's appearance starts at 15:57.*)

Stocks at Crossroads: 3 Things to Watch for in June (5/31/2017)

[NerdWallet](#) spoke with Ernie Cecilia about what the BMT investment team is watching in the markets as we approach the halfway point of 2017. Ernie explained that among the key upcoming events in June is the FOMC meeting, as a decision not to raise the Fed Funds rate at the meeting may be interpreted by the financial markets as a negative commentary on economic growth.

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