# Market Summary – June 12, 2017

## *For the week ending June 9*

*This summary is provided by BMT Wealth Management.*

### The News Cycle Just Keeps on Ticking

Last week was hardly unique in providing fodder for a 24/7 news cycle. There were plenty of headlines inundating the airwaves and providing potential scripts for future spy novels.

In the UK, Prime Minister Theresa May's Conservative Party failed to win a majority in Parliament in the "snap election" she called three years early. Mrs. May's Conservative Party sought a wider majority in advance of "Brexit" negotiations with the European Union scheduled for June 19.

The defeat calls into question whether the Prime Minister will be forced to resign, and, at a minimum, it adds a dose of general uncertainty to the UK and euro area.

Last week also included Thursday's (June 8) much-anticipated Senate hearing with James Comey, the former FBI Director who was fired last month. The lack of any "bombshell" revelations by Mr. Comey under oath provided investors with an opportunity to bid up selective sectors and stocks as the week came to a close.

### Financial Markets Last Week

The S&P 500 rose 0.3% for the week last week, while the tech-laden NASDAQ Composite fell 1.6%, in a reversal of recent trends. Smaller-cap stocks, as measured by the Russell 2000, advanced 1.2%.

The market refocused on some of the areas that did well after last November's elections: financials, energy, and domestic small-cap stocks. Stocks of companies characterized as "value" beat their "growth" counterparts, in yet another reversal.

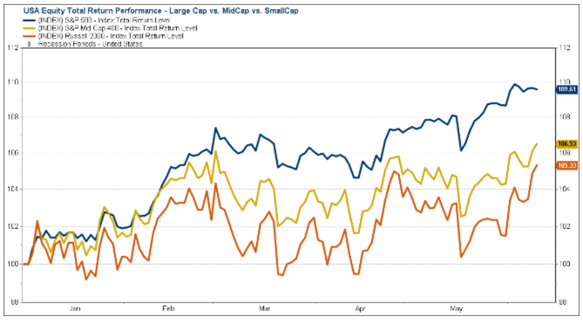
Stocks in developed international markets, as measured by MSCI EAFE, declined by about 1.4% on the week. Emerging market stocks were essentially flat on the week, but are up a strong 18.08% year-to-date.

Yields on two-year and ten-year U.S. Treasury bonds rose last week. The two-year U.S. Treasury rose in yield from 1.29% to 1.34%, with the ten-year issue rising 4 basis points (0.04%) to close the week at 2.20%. The slightly higher rise in short-term issues caused the yield curve to flatten modestly.

### Market Cap Matters

Despite the turn of events late last week, larger-cap stocks have outperformed their smaller brethren through the first five months of the year. As noted in the graph below, large-cap stocks (blue line), as measured by the S&P 500, have outperformed mid-cap stocks (gold line) and small-cap stocks (orange line) on a year-to-date basis through Friday (June 9).

**U.S. Equity Performance by Market Cap**
**1/1/2017 – 6/9/2017**




*Source: FactSet, Inc.*

One factor in this divergence is that S&P 500 companies derive 30% of revenue, and a much higher percentage of earnings, from foreign sources. The weaker dollar and forecasts of faster growth in selective international developed and emerging markets have created tailwinds for multinational companies in currency translations into the U.S. greenback.

The other factor playing into the outperformance of larger-cap stocks thus far in 2017 is the “FAANG” trade. The acronym stands for Facebook, Amazon, Apple, Netflix, and Google. Up until this past Friday, these issues accounted for about 30% of the S&P 500’s 8.6% year-to-date advance. Late last week, the focus shifted back to areas that would benefit from tax and regulatory reform measures.

## Our View

The big news event this week is the Federal Open Market Committee meeting scheduled for Tuesday and Wednesday (June 13 and 14). Based on current Fed Funds futures, there is a greater than 90% probability that the Federal Reserve will raise short-term interest rates by 0.25% to a range of 1.00% - 1.25%. The bigger question is whether there will be any further rate hikes by the central bank this year.

We continue with our view that domestic equity valuations fully reflect earnings prospects on a 12-month forward basis. It remains key that corporate tax and regulatory reform measures, which are necessary to accelerate GDP growth and support corporate profits, be enacted.

In the fixed income markets, we continue to believe it would be prudent to remain defensive as to duration risk at this stage of the economic cycle. Our focus continues to be on short and intermediate maturities with an overweight on credit versus government issues.



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