Market Summary – June 19, 2017

For the week ending June 16

This summary is provided by BMT Wealth Management.

Economics

Last week was punctuated with several noteworthy economic news items and highlighted by a weak inflation report.

The Core Consumer Price Index year-over-year dropped to 1.7% in May, from 1.9% the prior month. It was the slowest pace of annual inflation since May 2015. Interestingly, the low inflationary environment did not catch the eye of bargain shoppers, as noted by a weak retail sales release.

Advance Retail Sales dropped -0.3% in May, compared to a 0.4% increase the prior month. Consumer confidence levels also dipped in May, coinciding with the drop in sales.

Although declining consumer sales and confidence levels are generally viewed as a negative combination for economic growth, the Federal Reserve (the Fed) apparently is not too concerned and provided a relatively upbeat assessment of the overall U.S. economy at its meeting last week (on June 13-14).

The Federal Open Market Committee increased the federal funds target range by 25 basis points (0.25%) at last week's meeting, for the second time this year. The new target range is 1.00% to 1.25%.

During the post-meeting press conference, Fed Chairwoman Janet Yellen indicated that the recent weak inflationary data will trend upward over time, led by a tightening labor market and rising labor costs. Consistent with its views, the Fed believes another rate hike is warranted before the end of the year.

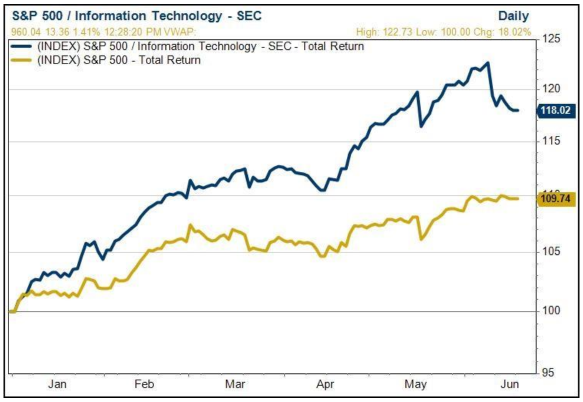
Also during the meeting, the Fed provided a road map for balance sheet reduction that is expected to begin before the end of the year. Initially, the reduction in reinvestments will be gradual and slow, with $6 billion in U.S. Treasuries and $4 billion in mortgage-backed securities expected to roll off each month. The amounts are expected to increase over time.

Equity Markets

The S&P 500 Index was able to squeeze out a very modest return of 0.12% last week, but was unable to hold on to its record high of 2,440 that was recorded on Tuesday (June 13). The Industrial and Utility sectors were the best-performing sectors, up 1.74% and 1.65%, respectively.

Technology companies continued their recent decline and were the worst-performing sector in the Index, dropping -1.14% last week. However, technology companies have been a favorite for investors this year, given the sector's 18.02% return recorded so far in 2017 (blue line in the chart below), compared to the S&P 500 Index return of 9.74% (gold line).

Information Technology Sector vs. Overall S&P 500: 12/31/2016 – 6/16/2017



Source: FactSet, Inc.

As for popular tech news, the most noteworthy was reported on Friday (June 16), with the announcement of the buyout of Whole Foods Market (WFM) by Amazon (AMZN). Whole Foods Market equity jumped nearly 30% on the day.

Also on the week, U.S. small-cap stocks, as measured by the Russell 2000, dropped roughly -1.00%, while the international equity markets were mostly unchanged, as noted by the MSCI EAFE Index.

Fixed Income

The low inflationary data overcame a somewhat hawkish message from the Fed last week and supported a drop in bond yields along the yield curve.

The two-year and 10-year U.S. Treasury yields dropped two basis points (0.02%) and five basis points (0.05%), respectively, and ended the week at 1.32% and 2.15%.

A flatter yield curve has been the dominant theme in the fixed income markets this year, with the short part of the yield curve rising alongside the federal funds target range, while longer-term bond yields have dropped, coinciding with declining inflation expectations. The yield curve (the difference between the two-year and 10-year yields) has flattened more than 40 basis points (0.40%) this year.

Our View

Both the equity and fixed income markets have generated positive returns this year, as central banks around the globe have collectively provided ample amounts of liquidity and accommodative monetary policy. Asset classes have generally benefited and performed well in this environment.

Our focus and due diligence process when selecting issuers will remain on seeking undervalued securities that we believe will perform well over the long term and provide defensive characteristics to portfolios. A rigorous review of company fundamentals will continue to drive our thought process as we navigate through the current investment environment.

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