Market Summary – July 10, 2017

For the week ending July 7

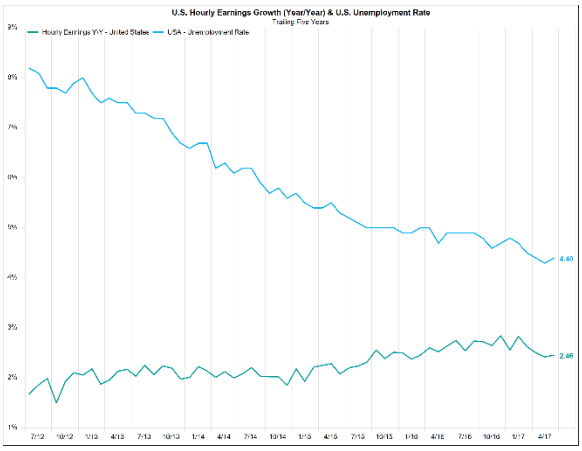
This summary is provided by BMT Wealth Management.

Jobs and Wages

The most noteworthy economic announcement during the July 4th holiday-shortened trading week arguably came on Friday morning (July 7), when the labor statistics for the month of June were released.

The report was a bit of a mixed bag, with the economy adding +222,000 new nonfarm jobs, versus a consensus estimate of +177,000. The unemployment rate, however, moved modestly higher by one tenth of a percent, to 4.4% (top line in the graph below), due to an expanding labor pool.

U.S. Hourly Earnings Growth and U.S. Unemployment Rate: Five Years Ending 6/30/2017



Source: FactSet, Inc.

One line item within the release that is being closely watched is the growth rate in hourly earnings (bottom line in the graph above). With unemployment at low levels and recent hiring continuing at a reasonable pace, some thought wage pressures would start to become more apparent at this point. That was not the case, as hourly earnings showed a modest year-over-year advance of 2.5%, up only marginally from the prior month's 2.4% increase.

The current focus on wage pressures is clearly a function of the fact that the unemployment rate has marched steadily lower over the past five years, to a level many economists would say equates to full employment. This should theoretically allow workers to start to demand higher wages, which while good for the employee, would raise inflationary concerns. To date, however, the wage increases have been relatively modest and are trending only slightly higher.

Still, with interest rates at such low levels, any meaningful sign of inflation would be a real concern to bond investors, so this metric will continue to be closely watched.

Two Quarters in the Books

For the first six months of 2017, the S&P 500 Index posted an impressive gain of 9.34%. The Index was able to add to those returns during the week that just ended, but just modestly so, moving higher by 0.14%.

Smaller capitalization stocks, as measured by the Russell 2000, generated more meager returns over the first half of the year, advancing 4.98%. The Russell Index also lagged the S&P last week, advancing just 0.05%.

International equities, as represented by the MSCI EAFE Index, had a rough start to the third quarter, declining -0.47%. However, this Index of non-U.S. stocks is still handily ahead of the S&P 500 for the year, with a total year-to-date return of 13.27%. Emerging market equities led the way in the first half of 2017, rising 18.43% (MSCI EM).

Ten-Year Yields Move to High Side of Recent Trading Range

The yield on the 10-year U.S. Treasury bond has spent most of the past three months in a range from 2.15% to 2.40%. With one week to go in the month of June, the yield stood at 2.15%. It then marched higher by 16 basis points (0.16%) during the final week of June and added an additional 8 basis points (0.08%) last week, to finish at 2.39%.

For 2017, the high yield on the 10-year Treasury is 2.63%, which was reached on March 13.

Earnings Season to Begin

Over the coming weeks, companies will begin to announce quarterly earnings, with the first reports starting to trickle in this week. As always, we will be closely monitoring these reports and management comments related to business prospects.

We continue to believe that the price/earnings ratio being paid for earnings is rather full, so any increase in share prices will likely need to come from higher earnings, and not a higher multiple paid for those earnings.

Finally, we continue to be vigilant in our assessment as to whether tax and fiscal policy changes will be implemented over the coming months to enhance the growth rate of the U.S. economy and corporate earnings.

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