Market Summary – July 17, 2017

For the week ending July 14

This summary is provided by BMT Wealth Management.

Economics

Federal Reserve Chair Janet Yellen set the tone last week with the Federal Reserve's semi-annual Monetary Policy Report presented to Congress.

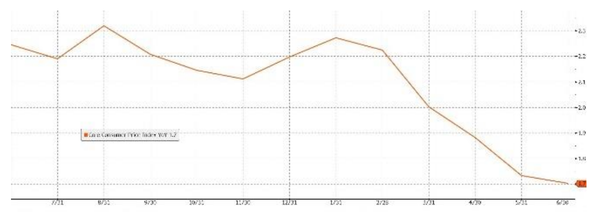
Within her prepared remarks, she discussed the recent lackluster inflationary data and the potential for more than just transitory factors weighing on consumer prices. Investors were surprised by her dovish tone, given prior comments indicating that factors contributing to the weak inflation numbers were mostly transitory.

Ms. Yellen's remarks could not have been more timely, as the financial markets anxiously awaited the June Consumer Price Report, which was released on Friday (July 14).

The report reflected that consumer prices (excluding food and energy) modestly increased 0.1% in June and 1.7% over the past year. By comparison, consumer prices jumped 2.3% on a year-over-year basis in January.

The price weakness was partly attributable to airfares, auto prices, and wireless phone services. The Federal Reserve's annual inflation target of 2.0% came up short again for the third consecutive month.

Core Consumer Price Index
Year over Year
6/30/2016 – 6/30/2017



Source: Bloomberg Finance L.P.

Also reported on Friday, consumer spending declined -0.2% in June, after dropping -0.1% the prior month. The consecutive monthly decline is surprising, given a healthy labor market and high consumer confidence levels. Nevertheless, the second quarter gross domestic product estimate scheduled to be released later this month may not be as strong as many had hoped, given the sluggish sales figures.

Equity Markets

The U.S. equity markets danced to their own tune last week, with the Dow Jones Industrial Average and the S&P 500 Index reaching new highs. The weak inflationary and sales data were viewed as a potential indication that a future rate hike may be pushed off into next year.

The S&P 500 Index jumped 1.42% and closed Friday (July 14) at 2,459. The Information Technology and Energy sectors were the top performers, up 3.76% and 2.09%, respectively, while financial services companies ended the week in negative territory. The low interest rate environment continues to pressure net interest margins, a primary source of income for banks.

Around the globe, both developed and emerging markets also performed well on the week last week. The MSCI EAFE Index and the MSCI Emerging Markets Index were up 2.38% and 4.60%, respectively. In commodities, oil and gold prices ended the week higher.

Fixed Income

In fixed income, the U.S. Treasury yield curve resumed its flattening bias, with the difference between the two-year U.S. Treasury yield and the 10-year U.S. Treasury yield declining two basis points (-0.02%). The subdued inflationary data supported investor demand on the long-end of the U.S. Treasury curve. Investment grade corporate bonds continued to perform well, in line with U.S. equities.

Also worth noting from last week, the Bank of Canada (Canadian central bank) raised its policy rate 25 basis points (0.25%), its first increase in seven years. The increase provides further indication that central banks are more comfortable scaling back years of monetary policy easing. Of course, the interest rate environment remains very accommodative, and policy makers have made clear that decisions are not on a pre-set schedule.

Our View

The S&P 500 Index is up over 11% in 2017. The positive performance has led to full valuations and speculation about its sustainability. With earnings season underway, corporations will have the opportunity to justify their value.

We continue to believe that underlying company fundamentals will be the ultimate driver of long-term, future returns.

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