# Market Summary – August 14, 2017

## *For the week ending August 11*

*This summary is provided by BMT Wealth Management.*

## Geopolitical Tensions Flare

Last week was relatively light in terms of economic reports released in the United States. None of the macro data resulted in material fluctuations in asset prices.

Inflation data, both CPI and PPI, fell slightly short of consensus expectations. Unless inflation begins to reaccelerate, the Fed may be limited in its efforts to "normalize" interest rates in the near future.

The big news story this past week was the escalating tension between North Korea and the United States. Global equity markets experienced a 1% decline, on average, on Thursday (Aug. 10), after news surfaced from Pyongyang about North Korea's plans to launch four ballistic missiles aimed at Guam. A series of statements and tweets by political leaders on opposite sides of the globe exacerbated investor fears.

A full-scale military conflict between the United States and North Korea would be the proverbial "black swan" event that many market bears have been citing. It could upend the current economic expansion and cause a more pronounced downturn in risk assets.

That said, there has been no shortage of major geopolitical events over the history of publicly traded equity markets. Investors should be assured that in most cases, such events have had little influence on the longer-term direction of asset prices. The drawdowns are usually more pronounced when these occurrences take place when the economy is already mired in recession, or is on the precipice of being in one, or the stock markets have previously shown visible signs of weakening.

Currently, global economic data has not dramatically weakened, and equity markets both here and abroad are in a general uptrend.

## Equity Markets

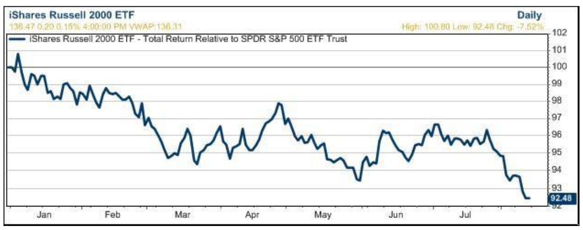
U.S. stocks, as measured by the S&P 500 Index, closed out last week in the red. Despite Thursday's market selloff, the Index is still ahead approximately 9% for the year-to-date period ending Friday (Aug. 11).

As one would expect, the more defensive areas of the market, such as Utilities and Consumer Staples, outperformed. Financial Services and Energy issues were negative outliers for the week.

International developed markets, as measured by MSCI EAFE, experienced a decline similar to their U.S. counterparts. Emerging market equities were not immune to Thursday's market turbulence, as the MSCI Emerging Markets Index declined over 2% for the week. International equity markets are still ahead double digits thus far in 2017.

To date, U.S. small cap equities have been a disappointment in 2017. This past week's bout of market volatility caused the Russell 2000 Index to decline over 2%. The underperformance of U.S. small caps (see the chart below), which is something we have noted in the past, is somewhat concerning and will warrant further attention going forward.

**Returns of U.S. Small Caps vs. U.S. Large Caps**
**Russell 2000 ETF (IWM) Compared to**
**S&P 500 Index ETF (SPY)**
**Year-to-Date Ending 8/11/2017**




*Source: FactSet, Inc.*

## Fixed Income

The 10-year U.S. Treasury yield dropped to 2.19% last week and is now approaching the lows reached in mid-June. From a technical standpoint, 2.10% seems to be a key support level. If the 10-year were to fall below that level in a dramatic fashion, it could be a sign that the bond market is pricing in a less sanguine outlook for the economy.

Credit spreads have been well behaved, and unlike many other periods of spikes in equity volatility, have not widened in a meaningful way.

The behavior of credit markets can be very telling when trying to gauge the near-term direction of the economy and equity markets.

## Our View

Despite the tensions caused by North Korea's nuclear ambitions and the associated political bantering, our views on the equity and fixed income markets have not changed. However, we will continue to monitor the North Korean issue, and other key economic data, quite closely.

Volatility within equity markets has been suppressed for some time, and given current valuation levels, we would not be surprised if stocks faced a headwind in the near-term as we enter the seasonally weak period of late summer/early fall.

For clients who are meaningfully overweight in risk assets, it may be prudent to revisit exposures across asset classes to ensure proper diversification relative to target weights.

## *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.

**Stocks Dip on North Korea Tension (8/8/2017)**
Ernie Cecilia, Chief Investment Officer at BMT, joined Fox Business live to weigh in on current market activity. Despite the escalation of geopolitical tensions with North Korea, Ernie explained that investors should remain calm and that market volatility will emanate internally from earnings and valuation issues.

**August, When All the Traders Take Off and Drama Hits the Markets (8/11/2017)**
Bloomberg turned to Ernie Cecilia for his thoughts on investor sentiment in light of recent market fluctuations. Ernie explained that North Korea is an external event creating volatility in a period when market internals are beginning to become seasonally less supportive.

**The Outlook for Stocks for the Rest of 2017 (8/14/2017)**
In light of stocks hitting record highs, U.S. News & World Report sought analysis from Ernie Cecilia about whether the bull market can continue its historic run. Ernie pointed to two things that could slow down the markets: a disappointing earnings season and the Fed's discontinuation of its bond-buying program.



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