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Market Summary – August 21, 2017

For the week ending August 18

This summary is provided by BMT Wealth Management.

A Spike in Stock Market Volatility

As has been the trend recently, most of last week's news did not come directly from Wall Street, but rather from "Main Street."

On Monday (Aug. 14), the Dow Jones Industrials rallied 135 points, as the sabre rattling in North Korea moderated somewhat. Equities then largely marked time over the next two trading days, before a terrorist attack in Spain on Thursday (Aug. 17) sent the Dow lower by 274 points.

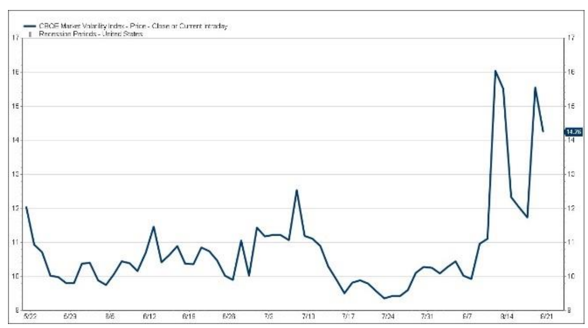
Adding to Thursday's selloff were rumors that Gary Cohn, the administration's top economic advisor and a key member of the Trump team, was resigning. Those rumors proved to be untrue, at least so far.

On Friday (Aug. 18), the Dow declined another 76 points to finish out the week with a loss of -0.77%. The S&P 500 ended the week lower by -0.58%.

Prior to the past few weeks, many had been reporting on the recent declines in the volatility of stock prices. This is gauged by the VIX Index (see the graph below), which measures expectations for near-term volatility based on the trading conveyed by S&P 500 futures.

The VIX Index hit a 23-year closing low on July 21. However, the last two weeks have witnessed at least a modest reversal on this front. To put this move into context, the VIX last traded over 20 in November 2016, and over 40 during the summer of 2015.

VIX:
Last Three Months



Source: FactSet, Inc.

Financial Markets: The Good and the Bad

Heading into August, the S&P 500 had registered positive monthly total returns every month since the November 2016 U.S. elections. The Index posted an all-time high on Monday, Aug. 7, and looked to be on pace to add to its recent win streak.

However, the S&P actually finished lower for that week (the week ending Aug. 11), and did so again for the week just ended. While there are still nine trading days left in the current month, the S&P 500 will now need to overcome a deficit of -1.64% to move into positive territory.

The best-performing sector for the month of August thus far has been the Utility sector, which is the most defensive. It is higher by 2.42%.

One of the larger losers has been consumer discretionary issues, a sector populated by retailers. Despite the uptick in retail spending for July, this group has largely struggled due to changing consumer spending patterns, particularly as they relate to internet purchases.

Non-U.S. equities have not been immune to the recent declines, as international developed (MSCI EAFE Index) and emerging markets (MSCI EM Index) equities are also lower since July 31. However, on a year-to-date basis, both the MSCI EAFE Index (+16.13%) and the MSCI EM Index (+24.84%) continue to outperform the +9.76% return posted by the S&P 500.

Bond yields closed out last week mostly unchanged, with the yield on the 10-year U.S. Treasury holding steady at 2.18%. Also, credit spreads widened last week, coinciding with a drop in the equity market.

Tax Reform and The Solar Eclipse

Is the wait for today's solar eclipse equivalent to the wait we may expect before we see meaningful reform from the legislative bodies in Washington, D.C.? (The last coast-to-coast total eclipse in the United States was in 1918.)

Coming out of last fall's election, investors anticipated action with respect to tax reform, increased infrastructure spending, and regulatory relief. For the most part, they are still waiting.

While changes have been made on the regulatory front, there has been nothing meaningful to show with respect to tax reform or increased infrastructure spending. With the Federal Reserve moving to a less accommodative posture, we maintain that action on these other two policy fronts takes on added importance, for both the U.S. economy and the financial markets.

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