Market Summary – September 5, 2017

For the week ending September 1

This summary is provided by BMT Wealth Management.

Economics

The U.S. economy maintained its positive momentum in the second quarter of 2017, led by consumer and business spending.

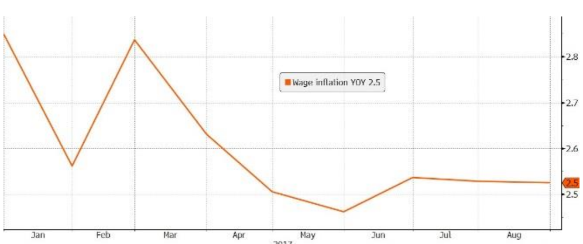
U.S. economic growth (GDP) reached an annualized rate of 3.0% in the quarter. This was its fastest pace in more than two years, and considerably faster than the 1.2% pace we saw in the first quarter of the year.

Consumer spending continues to benefit from a healthy labor market. U.S. employers added 156,000 new jobs to their payrolls in August, fewer than had been expected, but more than enough to keep up with the growing U.S. working-age population.

The unemployment rate ticked up to 4.4%, compared to 4.3% the prior month, while the lack of notable wage inflation remains a concern.

As illustrated in the graph below, annual wage inflation has remained stagnant at roughly 2.5% over the past five months, and is down from 2.9% in December 2016.

U.S. Annual Wage Inflation
Year-over-Year
12/31/2016 – 8/31/2017



Source: Bloomberg Finance L.P.

Interestingly, the unemployment rate has also declined during the same period. The inverse relationship between wage inflation and the unemployment rate that is typical in an expanding economy has yet to materialize.

Also worth noting from last week, U.S. manufacturing in August remained a bright spot for the economy. The sector remains in expansion mode, benefitting from the low inflationary environment, healthy consumer and business spending, and a depreciating U.S. dollar.

Equity Markets

Last week was a good time for investors to be invested in the S&P 500, as the Index recorded a gain for five consecutive trading days. The Index ended the week up 1.43%, closing at 2,476.55, a few points shy of its record high.

Healthcare stocks were the best performers last week, up 2.98%, while Telecom and Utilities both ended the week in the red, down -1.28% and -0.57%, respectively.

For the year, the S&P 500 Index is up more than 12%.

Investors have remained optimistic throughout this year, given a pickup in corporate earnings and global economic growth.

Overseas, the MSCI EAFE Index and the MSCI Emerging Markets Index both ended the week in positive territory, up 0.58% and 0.65%, respectively.

Fixed Income

In fixed income, U.S. Treasury yields were unchanged last week, with the two-year and 10-year U.S. Treasury yields ending the week at 1.34% and 2.17%, respectively.

Weak wage data was offset by higher U.S. economic growth and consumer confidence levels, leaving the shape of the yield curve unchanged from the prior week. Inflation expectations and credit spreads ended the week mostly unchanged, as well.

Regarding U.S. monetary policy, the Federal Reserve will begin its next two-day meeting on Tuesday, Sept. 19. Based on the federal funds futures markets, investors are not expecting another rate hike until the second quarter of next year.

Our View

So far this year, a broad range of asset classes, both international and domestic, fixed income and equities, have performed well. Global economic growth coinciding with low inflation has been a key contributor to asset performance as well as to valuations.

We continue to believe that company fundamentals need to be monitored very closely, given current prices and the uncertainty that remains regarding fiscal policy and geo-political events around the globe.

Although markets can certainly change course, we will maintain our thorough and in-depth focus on company research, asset class valuations, and macro-economic conditions.

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