BMT
BRYN MAWR TRUST

Market Summary – September 18, 2017

For the week ending September 15

This summary is provided by BMT Wealth Management.

Market Shrugs Off Hurricanes and Lackluster Macroeconomic Data

Last week was relatively busy in terms of economic reports released in the United States.

Retail Sales and Industrial Production missed consensus estimates, but it is difficult to interpret the reports, given potential distortions in the aftermath of hurricanes Harvey and Irma.

Both CPI and PPI reports provided little evidence that inflation is showing signs of accelerating or dissipating. We note that there has been a modest rise in inflation expectations, however, which may cause the Fed to raise rates before the end of 2017.

Geopolitical tensions between North Korea and the United States cooled and took a back seat last week, despite North Korea's successful launch of a ballistic missile over northern Japan on Friday (Sept. 15). The ongoing saber rattling, which caused equity volatility to flare up nearly a month ago, did little to stop the equity market's upward climb.

Equity Markets

Global equities posted solid gains last week.

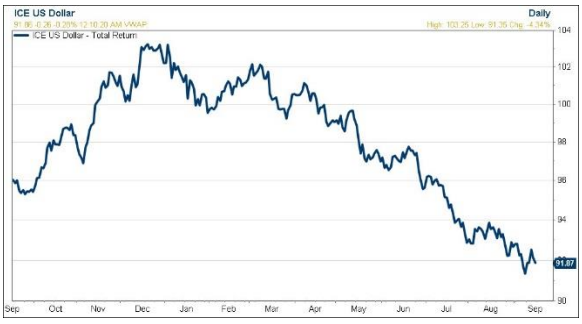
U.S. stocks, as measured by the S&P 500 Index, rose approximately 1.6%. Small cap stocks, which are often considered to be more economically sensitive and the biggest beneficiaries of lower corporate taxes, appreciated more than 2%.

More defensive areas of the market, such as Utilities, Health Care, and Consumer Staples, underperformed. The Financial Services and Energy sectors were positive outliers for the week. Banks and insurance companies benefited from an upward movement in interest rates, while rising commodity prices lifted energy stocks, particularly exploration and production companies.

The momentum in international equities continues to accelerate, after an extended period of underperformance compared to U.S. stocks. The selloff in the U.S. dollar thus far in 2017 (see the chart below) has provided a considerable tailwind for international equities priced in U.S. dollars.

In our opinion, international stocks continue to have attractive relative valuations, but outsized gains relative to domestic equities could be limited on a shorter-term basis, if U.S. dollar foreign exchange rates stabilize, interest rates increase, and U.S. fiscal policy (i.e., tax reform) measures are enacted.

U.S. Dollar Currency Index (DXY)
One Year Ending 9/15/2017



Source: FactSet, Inc.

Fixed Income

Interest rates rose across the yield curve last week.

The 10-year U.S. Treasury yield closed out the week at 2.20%, which was 14 basis points (0.14%) higher than its closing level the previous week. One factor behind the selloff in U.S. Treasuries was that the immediate economic impact of Hurricane Irma was not as significant as many had feared. In addition, geopolitical tensions moderated and inflation expectations moved higher, which caused investors to be net sellers of U.S. Treasury bonds.

Credit spreads remain tight, despite the fallout in the Retail sector and the continued struggles by many energy producers.

Municipal bonds have performed well thus far in 2017. Concerns that tax reform could eliminate municipal bond tax-exemption have (so far) been unjustified, but we will be monitoring municipal spreads as tax reform becomes a dominant theme over the coming months.

Our View

The events of this past week have not caused any changes in our current views.

Equity valuations are not cheap, especially in the United States. However, a combination of low inflation, stable economic growth, and an acceleration in both sales and corporate profits have created a favorable backdrop for risk assets. We continue to favor higher-quality equities and corporate credit on the fixed income side.

That said, we are not yet through the seasonally volatile period of late summer/early fall. Fiscal policy will be at the forefront as we enter the final months of 2017, and the inability of Washington politicians to enact fiscal reform could have major effects on the price of risk assets going forward.

BMT Wealth Management
Ernest E. Cecilia, CFA | Chief Investment Officer
610.254.2030 | ececilia@bmtc.com
bmtc.com/wealth