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Market Summary – October 2, 2017

For the week ending September 29

This summary is provided by BMT Wealth Management.

News from D.C.

With the economic calendar a bit light for the last week of September, the most noteworthy news came out of Washington. First, the Senate did not pass its latest bill to repeal the Affordable Care Act, and second, the Trump administration released a framework to reduce taxes.

During the 2016 elections, many within the Republican Party promised that, if elected, they would work to repeal the Affordable Care Act, a.k.a. Obamacare. The path to do so under a Senate parliamentary vehicle required just 50 votes (assuming Vice President Pence would cast the tie-breaking vote) until Sept. 30. After that date, 60 votes would be required. With Republicans holding 52 seats in the Senate, the margin for defections was small.

Over the first nine months of 2017, there were multiple attempts to repeal Obamacare, with the final effort (Graham-Cassidy) gaining momentum in September. Senator McConnell had indicated he would call for a vote on the bill sometime last week, but when it was apparent the votes were lacking, no such vote took place.

With the calendar now having turned to October, any effort by the current Senate to amend Obamacare will need to be bipartisan in its approach.

On Wednesday (Sept. 27), the Trump administration released some details of its plan to cut tax rates for corporations and many individuals and to reduce the complexity of the tax code. The markets embraced this news, as they did shortly after the presidential election last November, sending stocks to record highs by week's end.

Stocks Higher Yet Again

The S&P 500 pulled back a bit on Monday (Sept. 25), then moved higher over the balance of the week, to end Friday (Sept. 29) at an all-time closing high of 2,519.36.

For the week, the S&P advanced 0.72%, bringing its year-to-date total return to 14.24%.

Looking at quarterly results, the S&P posted a third-quarter return of 4.48%, marking the eighth consecutive quarter for positive returns.

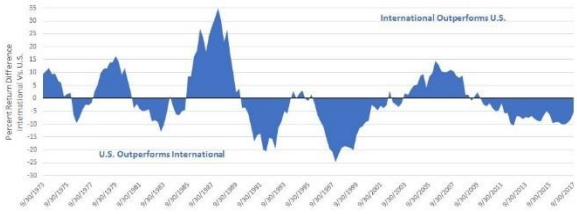
The MSCI EAFE Index of developed international stocks moved slightly lower (-0.02%) during the final week of September, bringing its return for 2017 to 19.96%.

While the year is obviously not yet complete, if the EAFE can hold off on the S&P for the next three months, it will mark the first year that developed international stocks (EAFE) have outperformed the S&P since 2012.

Comparing the returns on domestic and international stocks over a longer time period, rolling three-year increments, shows a see-saw battle for outperformance (see the chart below). The current trend, which is certainly noteworthy for its duration, not its magnitude, has the S&P 500 outperforming the MSCI EAFE since early 2010. The S&P still holds the upper hand over the past several years, but the margin has clearly

been narrowing with the recent outperformance of international equities.

MSCI EAFE Index vs. S&P 500 Index Comparison of Three-Year Rolling Average Total Returns 9/30/1973 – 9/30/2017



Source: Morningstar

Yields Continue to Rebound

Unlike equities, bonds had a rough time last week, with yields moving higher across the yield curve. The two-year and 10-year U.S. Treasury yields finished the week higher by six (0.06%) and eight (0.08%) basis points, respectively, closing the week at 1.49% and 2.33%. It was the highest yield on the two-year in more than eight years.

The "E" in "P/E"

For some time now, we have believed that the multiple, or price (the "P" in "P/E"), being applied to expected earnings (the "E" in "P/E") estimates was relatively full. As such, advances in equity prices would need to come mostly from higher earnings, and not from the multiple paid for those earnings.

The recent proposal to reduce corporate taxes, if enacted, could clearly be a catalyst for higher corporate earnings. On a more near-term basis, we will be closely monitoring the earnings reports that will be forthcoming over the coming weeks, which will detail third-quarter profits for corporate America.

BMT in the Press

Bryn Mawr Trust professionals are regularly sought after by the media for their insights on financial matters. The following is a recent highlight.

Here Is How Wealthy Women Are Getting Smarter Pitches from Financial Advisors (9/25/2017)
Ellen Jordan, Senior Vice President and Women's Wealth Advisor at BMT, spoke with Investor's Business Daily about how Bryn Mawr Trust offers financial planning services specifically geared toward women. Ellen explained that through the program Inspired Women's Wealth, she helps women navigate complex financial obstacles and develop a plan aimed at growing their wealth.

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