Market Summary – October 10, 2017

For the week ending October 6

This summary is provided by BMT Wealth Management.

U.S. Equity Markets Record New Highs

The S&P 500, Dow Jones Industrials, and NASADQ Composite each posted record highs last week. The Russell 2000 Index, a measure of small cap stocks, also posted a record closing high of 1512.09 on Thursday (Oct. 5), before giving up some ground on Friday (Oct. 6), in a lackluster end to a strong week.

On the international front, emerging market equities (MSCI EM) advanced a strong 1.8%, as developed markets (MSCI EAFE) were flat on the week. International equities have led U.S. equities in performance thus far in 2017.

U.S. Treasury yields rose modestly last week, as the 10-year bond closed the week to yield 2.35%. The 2-10 year U.S. Treasury yield curve flattened modestly, as yields on shorter-term issues (two-year notes) increased more in yield than longer-term issues (10-year bonds).

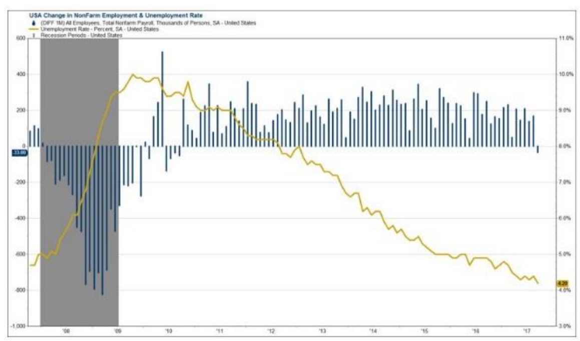
Non-Farm Payrolls, Affected by Hurricanes, Decline in September

The Bureau of Labor Statistics released employment data for the month of September on Friday (Oct. 6), indicating that non-farm payroll employment declined by 33,000 jobs.

Hurricane Harvey, which made landfall in Texas on Aug. 25, and Hurricane Irma, which made landfall in Florida on Sept. 10, significantly affected employment in those regions. It was the first non-farm payroll employment decline in seven years.

The decline in non-farm payroll employment was largely expected, however, and market reaction was generally muted on Friday.

U.S. Change in Non-Farm Employment & Unemployment Rate
10 Years Ended 9/2017
(Shaded Area: Recession)



Source: FactSet, Inc.

Wage growth rose a strong +0.5% for the month of September, elevating the year-over-year pace to 2.9%.

The civilian unemployment rate declined to 4.2%, a cycle low.

GOP Tax Reform Takes Center Stage

On Thursday of last week (Oct. 5), the House of Representatives passed a 2018 budget by a vote of 219 to 206, and the Senate Budget Committee approved an alternative resolution. The full Senate vote will take place during the week of Oct. 16.

These steps are critical for the success of the Republican Party's proposed tax reform measures, as they pave the way for the use of reconciliation instructions and eventual tax reform passage by a simple majority of 51 votes in the Senate, rather than the typical 60-vote threshold.

Given the strong partisan voting lines, the budget resolutions are an essential element to getting tax reform passed before the 2018 mid-term elections.

The stakes are high in the tax-reform debate, given the long duration of the current economic and market cycles. Currently, the corporate tax rate is 35%; the White House proposal suggests a reduction to 20%. The more likely outcome might be closer to a reduction to 25%.

On the individual side, the Trump administration's proposal calls for a reduction in the top income tax bracket from 39.6% to 35%. The more likely outcome is a rate somewhere between the two. The increase in the current standard deduction from $12,600 to $24,000, and changes to the income thresholds at various rates (which have not yet been disclosed), would have the most significant impact on middle-class wage earners.

Looking Ahead

In our opinion, the domestic equity indices reflect full valuation based on earnings prospects on a 12-month going-forward basis, which makes the issue of tax reform so imperative.

We see value in offshore equity markets, with attractive opportunities in both developed and emerging markets.

As to fixed income, we remain overweight in credit versus government debt and are holding portfolio durations near benchmark levels.

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