Market Summary – November 6, 2017

For the week ending November 3

This summary is provided by BMT Wealth Management.

Macroeconomics

Last week the financial markets had to digest a few key economic reports, details of the new tax reform proposal, corporate earnings, an FOMC meeting, and the nomination of a new Federal Reserve chairman, Jerome ("Jay") Powell. Despite a preponderance of potential market-moving events, investor reaction was muted.

Data released by the U.S. Bureau of Labor Statistics on Friday (Nov. 3) revealed that the labor market is showing no visible signs of weakening. For the month of October, total non-farm payroll rose by 261,000 jobs, and the unemployment rate fell from 4.2% to 4.1%.

A fall in the labor participation rate and a slight decline in year-over-year hourly earnings were the only blemishes on an otherwise very favorable report.

Aside from a robust jobs report, other key economic data, such as Personal Income, Consumer Confidence, and ISM Non-Manufacturing, exceeded consensus estimates for the month of October.

We note that the resurgence in the Manufacturing sector is not just a U.S. phenomenon. Economic survey data has been strong on a global basis, especially in the eurozone.

Last week's news pertaining to the Fed was, for the most part, what was expected. The FOMC did not drop any surprises, as it made no changes to its benchmark interest rate target. In addition, the announcement that Jay Powell has been nominated as the next Fed chairman was widely anticipated by the markets.

Equity Markets

Global equities posted modest gains for the week, and volatility continues to be low by historical standards.

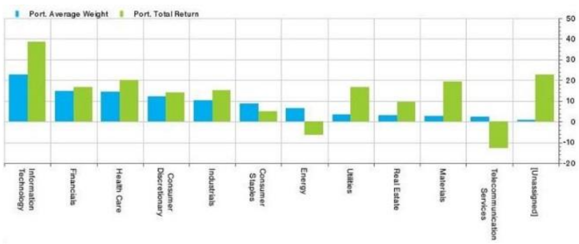
U.S. stocks, as measured by the S&P 500 Index, eked out a small gain and rose for the eighth consecutive week.

Small cap stocks did not fare as well and posted slight declines. The underperformance of small caps is a little surprising, given the details about proposed tax reform that were released (cut in corporate tax rate to 20%, full depreciation of capital spending, etc.), which, in theory, could have a positive impact on corporate earnings of smaller companies.

The momentum in international equities continues to gain steam, as both the MSCI EAFE Index (developed markets) and MSCI EM Index (emerging markets) finished in the black for the week. Aided by a weakening U.S. dollar, international stocks have been the biggest beneficiaries of this late-cycle global economic acceleration.

Third quarter earnings reports have been quite strong, especially in the Information Technology sector. The first ten months of 2017 have been favorable for equities overall, but the degree of outperformance by technology stocks has been impressive. The following chart illustrates this point.

S&P 500 Index (as measured by SPY)
Returns by Economic Sector
Year to Date (through 11/3/2017)



Source: FactSet, Inc.

Fixed Income

Like equities, there were plenty of catalysts last week that could have had a material impact on the fixed income markets.

The prospects of a potentially dovish new Fed chairman and a series of favorable economic reports did not have the effect on interest rates that one would normally expect.

In fact, the yield curve flattened further, with the 10-year U.S. Treasury yield falling eight basis points (0.08%), while two-year Treasuries rose two basis points (0.02%). Inflation has yet to be reflected in wages and the price of goods, which, so far, has kept a lid on interest rates.

The near-term outlook for credit appears favorable, given rising corporate profits and a strengthening economy. We will continue to pay attention to credit spreads as we close out the year.

Our View

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

The seasonally volatile period of late summer/early fall has ended with risk assets having a favorable showing. Several positive things, including the prospects for tax reform, an acceleration in corporate profits, low inflation levels, and a lack of any surprises on the monetary policy front, have provided a nice tailwind for risk assets.

While we are cautiously optimistic, we think valuations are not cheap and credit spreads are tight, which makes sound security selection imperative as the cycle progresses.

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