Market Summary – December 4, 2017

For the week ending December 1

This summary is provided by BMT Wealth Management.

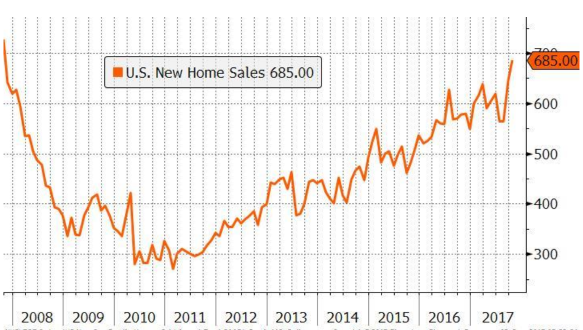
Economics

The U.S. economy continues to record solid economic growth in 2017, which was confirmed by last week's announcement that it expanded at a revised annualized rate of 3.3% in the third quarter. Business investment was a welcomed contributor to the ongoing expansion, while U.S. consumers maintained their spending habits, although at a subdued pace.

U.S. manufacturing and housing data reported last week also indicated an economy in expansion. Manufacturers have taken advantage of the weak U.S. dollar to boost sales, and home buyers continue to take advantage of the low interest rate environment (benign mortgage rates).

In October, new home sales increased 6.0% from the prior month, reaching the highest level in roughly 10 years. As indicated in the graph below, new home sales rose to 685,000 on an annualized basis in October, compared to 645,000 the prior month.

U.S. New Home Sales for Past 10 Years: 10/31/2007 to 10/31/2017



Source: Bloomberg Finance L.P.

It is worth noting that the positive economic growth story is not limited to the United States. In fact, the International Monetary Fund expects global growth to reach 3.6% this year, followed by 3.7% in 2018.

Low inflation and improving labor markets continue to be supportive of global growth. In Europe, the euro area's unemployment rate dropped to 8.8% in October, the lowest level in roughly nine years.

Equity Markets

The U.S. equity market indices performed in a synchronized manner this past week, as the Dow Jones Industrial Average, S&P 500, and Russell 2000 all reached new record highs. Impressively, the Dow Jones surpassed and closed above 24,000 last Thursday (Nov. 30), while the S&P 500 Index recorded its eighth consecutive positive monthly return in November.

Tax reform progress has been providing fuel for the most recent equity rally, with the Telecom and Financial sectors leading the way last week. They were up 6.71% and 5.26%, respectively.

In addition to an expectation of reduced taxes, the prospect of a less restrictive regulatory environment and higher interest rates has provided further support to the Financial sector.

The Technology sector missed out on last week's rally, dropping 2.00% on the week.

Overseas, the international equity markets were in negative territory, led by emerging markets, which were down -3.30% as measured by the

MSCI EM Index. The MSCI EAFE Index, a measure of international developed markets, ended the week down nearly -1.00%.

For the year, emerging and developed international markets are ahead 32.30% and 22.67%, respectively. Both are outperforming the S&P 500, which was up 20.25% through Friday's (Dec. 1) close.

Fixed Income

U.S. Treasury yields increased across the yield curve last week, with the two-year and 10-year Treasury issues increasing two basis points (0.02%), closing Friday (Dec. 1) at 1.77% and 2.36%, respectively. Credit spreads tightened and inflation expectations increased modestly.

Jerome Powell, President Trump's nominee to lead the Federal Reserve beginning next year, appeared before the Senate Banking Committee last Tuesday, Nov. 28. During the confirmation hearing, the Fed governor said he expects continued rising rates will coincide with healthy economic growth, much in line with current market expectations.

The Federal Reserve next meets on Dec. 12-13. It will be Janet Yellen's final meeting as Fed Chair.

Our View

The equity markets have been off to the races this year, with one more month to go. Tax reform has been the most recent catalyst, on the heels of positive company earnings and synchronized global economic growth.

As we enter the final leg of the year and approach 2018, company fundamentals remain our primary focus. We will continue to adhere to our stringent security selection and issuer due diligence process, as we believe company performance divergence is inevitable.

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