Market Summary – December 11, 2017

For the week ending December 8

This summary is provided by BMT Wealth Management.

Macroeconomic Overview

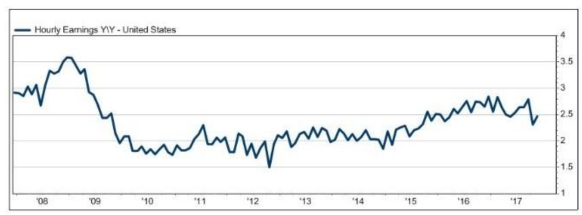
Last week's flurry of macroeconomic data continued to support the synchronized global growth narrative. Economic reports in the United States, including ISM Non-Manufacturing, Consumer Credit, Jobless Claims, Nonfarm Payrolls, and the University of Michigan Consumer Sentiment survey, provided no evidence that the U.S. economy is on the brink of contracting.

Data released by the U.S. Bureau of Labor Statistics (BLS) on Friday (Dec. 8) revealed that the labor market is once again showing no visible signs of deteriorating. For the month of November, total non-farm payroll rose by 228,000 jobs, while the unemployment rate remained at 4.1%, a level last seen 17 years ago, in December 2000.

The BLS jobs report did reveal that hourly earnings continued to fall short of consensus estimates. The magnitude of subpar wage growth has baffled many economists (see the chart below). One could argue that corporate earnings have benefitted from this phenomenon, culminating in significant upward movement in asset prices.

If wage growth were to accelerate from current levels, a case could be made that this economic cycle is on the verge of contracting. However, we do not see wage inflation as an immediate threat, given that some portion of the lack of wage inflation is structural in nature.

U.S. Bureau of Labor Statistics: Hourly Earnings (Year-over-Year % Change) Ten Years Ending 11/30/2017



Source: FactSet, Inc.

Equity Markets

The U.S. equity markets got off to a strong start early last week, after reacting favorably to the Senate's passage of major tax reform legislation.

That optimism faded to some degree toward the middle of the week, however, as the markets came to grips with the fact there are some stark differences between the House and Senate tax reform proposals. The markets closed out the week with mixed results.

Large cap stocks, as measured by the S&P 500 Index, finished the week with a modest gain (+0.39%). Large cap Financial Services stocks, which are well positioned to benefit from a combination of tax reform and deregulation, continue to remain a favored sector by the market and were positive outliers for the week.

Energy stocks (down -0.69%) and smaller-cap issues (Russell 2000, down -0.99%) got off to a rough start in December.

The Senate and House tax reform bills need to be reconciled before the legislation will be ready for presidential signoff and formal passage. Tax reform looks very likely, but it remains to be seen what the final version of this landmark legislation will look like.

Overseas, the international equity markets finished in negative territory for the second consecutive week.

Fixed Income

U.S. Treasury yields increased across the yield curve last week, with the two-year and 10-year Treasury issues increasing four basis points (+0.04%) and two basis points (+0.02%), respectively.

The continued flattening of the yield curve (slope: +0.58%) has garnered considerable market attention, given that curve inversion has preceded most economic recessions.

Pricing has been volatile in the municipal bond market over the last couple of weeks, as market participants are attempting to discern the effects of tax reform and digest the influx of municipal bond supply before year-end.

The Federal Reserve meets this week on Dec. 12-13. The markets are expecting a third and final rate hike of 25 basis points (+0.25%) for the 2017 calendar year.

Final Thoughts

Barring any major setbacks, risk assets are on the verge of closing out the year with strong gains once again. While the prospects of tax reform, fiscal stimulus, and deregulation have ignited investor optimism, we believe that above-average valuations have led to some degree of complacency, given how low volatility has been.

Our views have not changed, and we continue to believe that sound, bottom-up asset allocation and security selection on both the equity and fixed income side are vital for adding value at this stage of the economic cycle.

BMT in the Press

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

What to Consider Before You Dash Into Cash (12/4/2017)
Paul Gaudio, Wealth Planning Strategist at BMT's Wealth Specialty office in Princeton, explained to The Wall Street Journal how he helps investors determine how much of their portfolio should be held in cash. Paul emphasized the importance of working with a professional who understands your situation to determine portfolio allocation, as there is no one-size-fits-all approach.

Slump for Tech Stocks Overshadows Gains by Telecoms, Banks (12/4/2017)
As Congress continues to address tax reform, The Associated Press turned to Ernie Cecilia, Chief Investment Officer at BMT, to discuss the impact on market performance. Ernie explained that the

proposed tax changes will likely have different effects on different industries and companies. Banks and telecommunication companies, for example, potentially stand to benefit more significantly than information technology companies, given the present draft.

U.S. Stocks Rise as Focus Turns to Interest Rates: Markets Wrap (12/11/2017)
As 2017 draws to a close, Bloomberg reached out to Ernie Cecilia for his thoughts on current market activity. Ernie pointed to the upcoming Federal Reserve meeting and pending tax reform legislation as events that could move the markets during the last few weeks of the year.

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