Market Summary – January 8, 2018

For the week ending January 5

This summary is provided by BMT Wealth Management.

Macroeconomic Overview

The first week of 2018 offered no suggestion that the global economic growth trends we saw in 2017 were on the verge of abating.

On the contrary, economic reports this past week were mostly positive, especially those released in Europe, which is an encouraging sign as the new year commences. Economic activity in China seems to have moderated to some degree, but not to the extent that warrants concern.

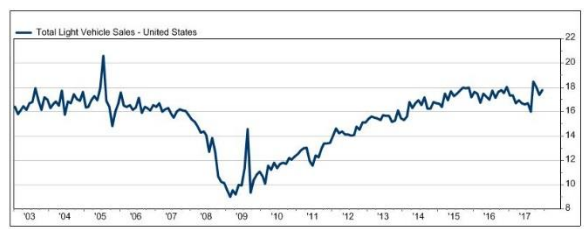
Within the United States, the U.S. Bureau of Labor Statistics released its December Non-Farm Payroll report on Friday (Jan. 5). While the job gains were not as robust as the prior month, total non-farm payroll rose by 148,000 jobs, the unemployment rate remained at 4.1%, and wages rose by 2.5% on an annualized basis.

In addition, results of the ISM Manufacturing survey, which monitors employment, production, inventories, new orders, and supplier deliveries, exceeded consensus estimates.

The downward trend in auto sales, which began in early 2017, reversed course over recent months (see the chart below). Approximately 17.8 million new vehicles were sold in December 2017, compared to 16 million in August of the same year.

Pronounced declines in auto sales can be a sign of negative trends in consumer behavior. A positive rate of change for this indicator provides further evidence that the economy appears to be on solid footing.

Total Light Vehicle Sales – United States
15 Years Ending 12/31/2017



Source: FactSet, Inc.

Equity Markets

Global equity markets got off to a strong start in the opening week of January, after investors had a chance to digest recent economic reports and the potential impact of the Tax Cuts and Jobs Act that went into effect on Jan. 1.

U.S. stocks, as measured by the S&P 500 Index, surged 2.63%. The rise in international equity markets was equally impressive, with the MSCI EAFE Index appreciating 2.45% and the MSCI Emerging Markets Index climbing 3.68%.

The strong gains were dispersed across a wide assortment of sectors and industries.

The only negative outliers for the week were sectors such as Utilities, Consumer Staples, REITs, and Telecom Services. Collectively, these sectors are more defensive and can be more sensitive to changes in interest rates.

Fixed Income

U.S. Treasury yields increased across the yield curve last week, with the two-year and 10-year Treasury issues increasing eight basis points (0.08%) and seven basis points (0.07%), respectively. The ten-year U.S. Treasury ended the week to yield 2.48%.

The continued flattening of the yield curve (slope: +0.52%) has not dissuaded investors from committing more capital to risk assets. The "risk on" environment was further exemplified by the continued contraction in high-yield corporate bond spreads.

Final Thoughts

There are plenty of reasons to be optimistic about the near-term prospects for the economy and financial markets.

However, this environment can be challenging, as we weigh positive macroeconomic developments against above-average equity valuations, low market volatility, and tight corporate bond spreads.

This economic cycle is not only long in duration, but has also been atypical, given the unprecedented amount of central bank intervention and recent fiscal policy developments.

As has been our practice, we continue to focus on thoughtful asset allocation, along with careful security and fund selection in the equity and fixed income markets.

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