BMT
BRYN MAWR TRUST

Market Summary – February 5, 2018

For the week ending February 2

This summary is provided by BMT Wealth Management.

Wall Street vs. Main Street

After setting an all-time closing high to finish out the prior week, the Dow Jones Industrial Average slumped by almost 1,100 points, or -4.1%, for the week just ended. The damage was particularly severe on Friday (Feb. 2), when the Dow fell by 665.75 points.

The S&P 500 suffered a similar fate, finishing out the five-day period lower by -3.8%. While the S&P 500 is still up 3.4% year-to-date, given the recent lack of volatility in the financial markets, the declines somehow seemed even worse than the actual numbers.

The trigger for Friday's selloff arrived at 8:30 a.m., when the Labor Department announced that 200,000 new jobs had been added to the U.S. economy during the month of January. The unemployment rate held steady at 4.1%, its lowest level since December 2000.

The big news, however, was on the wage front, where average hourly earnings increased by 2.9% from a year earlier. This was much higher than the consensus estimates of 2.6% and stoked fears that inflation could be headed higher.

Throughout the recent economic expansion, one of the criticisms has been that Main Street was not meaningfully benefitting from higher wages. Friday's Labor Department release showed that may be changing, however, which could translate to higher inflation.

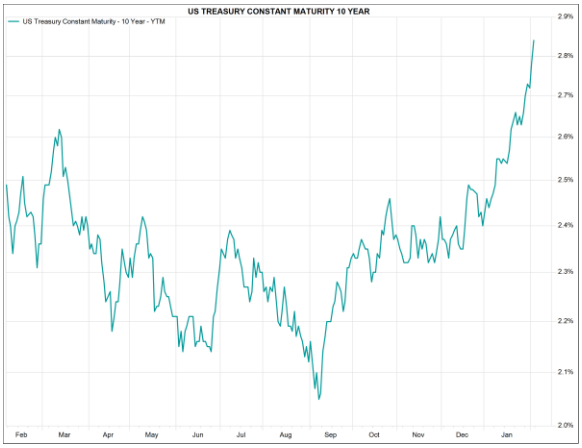
Bond prices sold off sharply on the prospect of increasing inflationary pressures, and when the stock market opened, it quickly followed suit.

First Day on the Job

Even before Friday's announcement, the bond market had been acknowledging the likelihood of higher inflation. This was no doubt a function of the recent strength in the economy, coupled with the added growth that should come from tax reform.

The chart below details the yield on a constant maturity 10-year U.S. Treasury note over the past year. It ended last week at 2.84%, up from 2.41% at the start of the year. As recently as last September, the yield was just over 2.00%.

Constant Maturity 10-Year U.S. Treasury Note
12 Months Ending 2/2/2018



Source: FactSet, Inc.

Against this backdrop of increasing inflationary fears, Janet Yellen completed her four-year tenure as chair of the Federal Reserve on Saturday (Feb. 3). Jerome Powell was sworn in as the new Fed chair this morning, and it will now be his job to steer the Central Bank.

The Fed next meets on March 20-21, and it is widely expected it will increase rates. The consensus seems to be for a total of three increases in 2018, which would match the steps taken in 2017.

The prior two years (2015 and 2016) saw just one rate hike each year, so activity on the front of normalizing yields has certainly been increasing. This is reflected in 90-day Treasury Bills, which yielded essentially nothing prior to the 2015 increase, and now yield 1.48%.

Looking Ahead

Bonds have clearly been adjusting to increased inflation expectations, and stock prices suffered from those concerns last week as well. Still, corporate earnings have been strong, and the recent strength in the economy and lower corporate tax rates should enhance those results as we move through 2018.

While volatility in the equity markets is likely to pick up from last year's tranquil levels, we will be looking to use any price dislocations opportunistically once the market stabilizes.

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.

New Fiscal Worry: Too Much Short-Term Borrowing as Deficit Climbs (1/31/2018)
The Wall Street Journal sought expert insight from Jim Barnes, Director of Fixed Income at BMT, on current bond market activity. Jim explained how he's evaluating Treasury yields on behalf of clients in a rising rate environment.

Dow Closes About 70 Points Higher, Capping Off Best Month Since March 2016 (1/31/2018)
After the first Federal Reserve meeting of 2018, CNBC.com turned to Ernie Cecilia, Chief Investment Officer at BMT, for his take on how the Fed's statement impacted market activity. Ernie also explained that he's keeping an eye on inflation data, as it's one of the key factors the Fed examines when determining to raise interest rates.

Are markets too complacent about inflation? (2/1/2018)
U.S. News & World Report turned to Jim Barnes, Director of Fixed Income at BMT, for expert insight on what rising inflation means for income investors. With inflation still relatively low, Jim explained how investors can prepare their fixed income investments now for when inflation does rise.

Hybrid Stock-Bond Mutual Funds Suffer Worst Week in 17 Months (2/2/2018)
Ernie Cecilia, Chief Investment Officer at BMT, spoke with Bloomberg about how current market activity is impacting investor portfolios. Despite minor fluctuations in bond and equity markets, Ernie explained the importance of remaining diversified across various asset classes in a long-term investment strategy.

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