BMT
BRYN MAWR TRUST

Market Summary – February 12, 2018

For the week ending February 9

This summary is provided by BMT Wealth Management.

Volatility, Volatility, Volatility

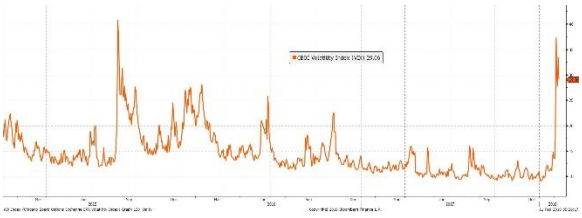
Last week, the buzz word in the financial markets was "volatility," and lots of it. In our view, the equity market's volatility is related to technical factors and is not necessarily an unwelcomed sign of deteriorating U.S. economic growth.

The Dow Jones Industrial Average suffered its worse point decline in the Index's more than 120-year history last week, dropping over 1,000 points on two separate trading days.

The bellwether S&P 500 Index closed last Thursday (Feb. 8) more than 10% off its recent high, officially entering market correction territory. To keep things in perspective, on average, the S&P 500 Index witnesses a 10% correction once every two years.

As noted in the chart below, the CBOE Volatility Index (VIX), which measures S&P 500 Index volatility, has spiked to levels not seen in more than three years, after a long period of declining and subdued levels.

CBOE Volatility Index (VIX)
12/31/2014 – 2/9/2018



Source: Bloomberg Finance L.P.

During the recent period of market complacency, many investors turned to securities that were linked to low volatility. Some feel those securities are partly to blame for last week's steep equity losses, while others simply noted the correction was long overdue. Most would agree that the unexpected jump in wage growth reported on Feb. 2 was the likely catalyst for the equity market rout, as speculation for 2018 rate hikes mounted.

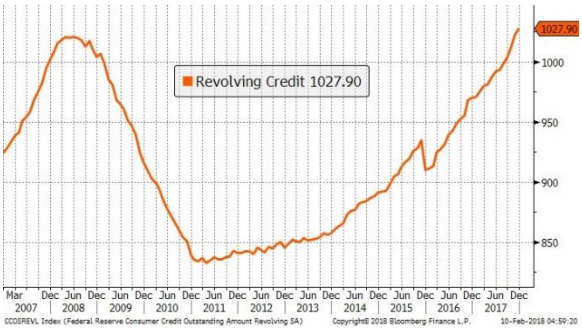
We note that James Bullard, President of the Federal Reserve Bank of St. Louis, and William Dudley, President of the Federal Reserve Bank of New York, both downplayed last week's volatility.

Fundamentals Remain Strong

In January, the U.S. service sector recorded its fastest growth in 10 years. This segment makes up roughly 90% of the U.S. economy, with manufacturing-type activities making up the balance. U.S. employers remain optimistic about future economic growth and the underlying strengths of the labor market.

There is one note of caution, however. Revolving credit (think credit card debt) has recently exceeded $1 trillion, coinciding with overall rising debt balances. Consumer spending is good for current economic growth, but too much reliance on debt can be a negative for future personal consumption.

Outstanding Consumer Credit
11 Years Ending 12/31/2017



Source: Bloomberg Finance L.P.

Financial & Oil Markets

The S&P 500 Index dropped -5.10% last week, with all 11 economic sub-sectors in the red. Energy companies were the worst performers, down -8.15%. Oil prices closed last Friday (Feb. 9) at $59.20, the first time this year the price has closed below $60. Lower oil prices are generally a negative for the energy market and are reflected in the sector's equity performance.

Overseas, developed international (MSCI EAFE) and emerging markets (MSCI EM) equity indices also ended the week with steep losses. The MSCI EAFE dropped -6.19%, while emerging markets fell -7.14%.

The following chart captures the change in prices of the MSCI EAFE (red line), MSCI EM (orange line), and S&P 500 (gold line) indices over the past 13 months.

Price Change in Equity Indices:
MSCI EAFE, MSCI EM, and S&P 500
1/2/2017 – 2/9/2018

Source: Bloomberg Finance L.P.

In fixed income, investors began to dial back their expectations for rate hikes in 2018. The two-year U.S. Treasury yield dropped six basis points (-0.06%) and ended last week at 2.08%, while the 10-year U.S. Treasury yield closed at 2.84%, roughly where it began.

Investors favored higher-quality issuers, such as U.S. government bonds, over investment-grade and high-yield issuers. The latter experienced the least investor demand, which was reflected in performance. High-yield issuers (commonly referred to as junk bonds) bore similar volatility traits as the equity market and acted accordingly.

Our View

February thus far has been a roller coaster for the financial markets. The rapid swings in equity prices are something investors have not experienced since the financial crisis of 2008. Fundamentally, however, we view this period as different.

Consumer and business health are on solid footing, and interest rates and inflation, albeit higher, remain benign. Overall, the economic environment looks favorable.

Further, the recent decline in oil prices was consistent with the overall decline in commodity prices, suggesting less inflation pressure than the markets fear, at least for the time being.

It is important during times of market distress to look beyond the noise and focus on the fundamentals. We believe that volatility will continue at a high level over the near term, and we would urge caution in making long-term portfolio construction decisions based on short-term market issues. Market downturns often present longer-term investment opportunities.

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.

Treasurys Rally in Flight to Quality as Stocks Plummet (2/5/2018)
In light of recent market turmoil, Jim Barnes, Director of Fixed Income at BMT, spoke with MarketWatch to discuss the impact of volatility on Treasury yields. Jim pointed out that he's watching the Federal Reserve to see if this environment will impact its decisions on rate hikes in the near future.

Markets waited a while for a pullback. Then, pow! (2/6/2018)
Ernie Cecilia, Chief Investment Officer at BMT, spoke with The Associated Press about the current state of the markets and potential triggers behind the recent pullback. Ernie suggested that the current market sell-off is being prompted by positive news of a strengthening economy and the likelihood of rising interest rates, and is not like the issues investors faced in 2008.

Worst Week in 2 Years for Stocks Ends on High Note: Markets Wrap (2/9/2018)
In light of recent market swings, Ernie Cecilia spoke with Bloomberg to explain how investors should position their portfolios. Ernie explained why short-term movements in the markets should not influence the construction of portfolios designed for long-term objectives.

Seat Belts Fastened: Volatility Ahead (2/10/2018)
Barron's asked Ernie Cecilia about the recent interruption to the long-running bull market. Ernie explained that the direction of monetary policy and the rise in interest rates along the yield curve have altered market dynamics going forward.

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