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BRYN MAWR TRUST

Market Summary – February 20, 2018

For the week ending February 16

This summary is provided by BMT Wealth Management.

Volatility Subsides, Equity Markets Gain Ground

Equity markets closed out last week with strong gains, even though there were plenty of catalysts to cause them to continue their recent downward plunge. The pickup in headline inflation at the consumer level (CPI) and producer level (PPI), and the weaker-than-expected readings in key economic indicators, such as Retail Sales and Industrial Production, did not have the negative effect on the markets that they could have.

All major U.S. equity market indices are now in positive territory for the year, despite correcting more than 10% over a ten-day span. The S&P 500 Index rose 4.37% last week, a positive move that resembles the November 2016 post-election rally.

The impetus behind the sharp pullback in equity markets over the past couple of weeks is a topic that is being widely debated. The selloff could be attributed to many factors, including rising interest rates, the disorderly unwinding of volatility-linked and trend-following investment strategies, and overly bullish investor sentiment. Fears of rising inflation, which can dampen corporate profit margins, is another potential cause. If the latter is the main culprit, the recovery in stock prices is perplexing, given the pickup in key inflation data.

One thing to note is the significant decline in market volatility last week. The CBOE Volatility Index (VIX) spiked from 11 to over 37 in a few trading sessions and has subsequently declined to under 20. In fact, the news late last week regarding Special Counsel Robert Mueller's indictments and the Commerce Department's steel/aluminum tariff recommendations had only a moderate impact on equity prices.

While it is too early to tell whether this equity correction is behind us, the calming of financial market conditions is an encouraging sign.

Digging Deeper into Company Fundamentals

Despite the concerns over inflation, budget deficits, and geopolitical headlines, company fundamentals appear to be on solid footing. According to data compiled by JP Morgan, 80% of reporting S&P 500 companies beat earnings estimates in the fourth quarter of 2017, based on data currently available. In addition, top-line growth rates (sales/revenue) rose at an 8% year-over-year pace, a level we have not seen since the initial period coming out of the 2008-2009 financial crisis.

It is worth reviewing the returns across economic sectors over this recent bout of market volatility. The table below shows sector performance for two Exchange Traded Funds (ETFs), the SPDR S&P 500 ETF Trust (SPY) and the iShares Russell 2000 (IWM), which are designed to track the S&P 500 Index and the Russell 2000 Index, respectively.

A key takeaway from the table is the resilience of Financials stocks, which performed well on a relative basis in both the market selloff and the subsequent rebound. The past several times the

market has fallen more than 10%, Financials were among the top detractors. In addition, more cyclical areas, such as Industrials, Technology, and Consumer Discretionary, have held up well.

Equity Returns by Sector for SPY and IWM
1/26/2018 through 2/16/2018

	26-JAN-2018 to 09-FEB-2018		09-FEB -2018 to 16-FEB-2018	
	SPY	IWM	SPY	IWM
Total	-8.71	-8.06	4.37	4.48
Consumer Discretionary	-7.50	-7.87	3.94	3.63
Consumer Staples	-8.66	-6.50	3.47	2.66
Energy	-14.02	-16.85	2.15	4.77
Financials	-8.31	-5.23	4.73	4.08
Health Care	-10.35	-9.12	4.07	5.69
Industrials	-8.45	-8.86	4.71	3.66
Information Technology	-8.26	-7.45	5.90	6.31
Materials	-8.85	-9.86	3.55	6.98
Real Estate	-6.46	-8.70	1.97	1.68
Telecommunication Services	-6.93	-8.31	2.42	6.33
Utilities	-4.86	-5.01	3.21	0.97
[Unassigned]	--	-8.86	--	5.41

Source: FactSet, Inc.

The data above suggests that the market is not at a major inflection point at which the underlying fundamentals that have supported this bull market are rolling over.

Our Views

On the fixed income side, we continue to favor corporate bonds, despite a modest widening in credit spreads. The yield curve flattened this past week, with the two-year and 10-year U.S. Treasury yields rising 11 basis points (0.11%) and three basis points (0.03%), respectively. We continue to focus on the short to intermediate part of the yield curve, given the potential for rising interest rates.

While the recent selloff in global stock markets has caused some investor angst, we think underlying company fundamentals are in decent shape. Despite a roughly 10% market correction, valuations are not cheap by historic standards. We continue to believe that bottom-up security selection and fund selection are paramount, especially as the private sector may be forced to adjust to higher borrowing costs relative to the past few years.

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.

Are We Heading for Simultaneous Stock and Bond Bear Markets? (2/14/2018)
Jim Barnes, Director of Fixed Income at Bryn Mawr Trust, spoke with U.S. News & World Report about how the bond market fared in light of recent stock market activity. Jim reminded investors that it's important for investors to maintain diversified portfolios to manage risk during periods of elevated financial market volatility.

Dow Rallies 306 Points, Notches 5-Day Winning Streak (2/15/2018)
As market activity continues to fluctuate, CNBC.com asked Ernie Cecilia, Chief Investment Officer at Bryn Mawr Trust, what investors can expect next. Ernie explained he's monitoring rising interest rates and inflation as key factors that could influence future market movements.

Banks Are the Sweet Spot of This Market That's About to Get a Lot Tougher (2/16/2018)
CNBC.com turned to Ernie Cecilia for his thoughts on the top-performing sectors in today's market. Ernie pointed to financials and banks as potentially attractive areas for investors in light of rising interest rates and strong earnings data.

BMT Wealth Management
Ernest E. Cecilia, CFA | Chief Investment Officer
610.254.2030 | ececilia@bmtc.com
bmtc.com/wealth