BMT
BRYN MAWR TRUST

Market Summary – March 19, 2018

For the week ending March 16

This summary is provided by BMT Wealth Management.

Federal Reserve to Meet This Week

With fourth quarter earnings reports largely completed, last week was generally lacking with respect to updates from corporate America.

Similarly, news on the economic front was also light, with inflation numbers (Consumer Price Index and Producer Price Index) being the most noteworthy announcements. Both inflation gauges were in line with consensus estimates.

One item that got the attention of the investment world was the Trump administration's recently announced tariffs on certain imported steel and aluminum. Specifically, investors tried to discern what industries might be negatively impacted, either from higher costs or retaliation by other countries against the United States.

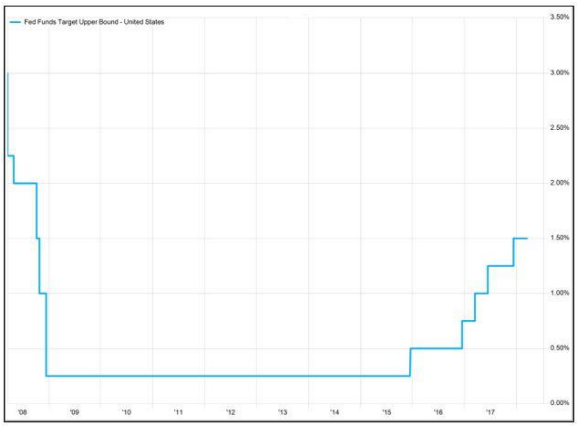
A case in point is Boeing Company, a member of the Dow Jones Industrial Average and a large exporter to China, which was particularly hard hit in the downdraft. Boeing's shares, which had performed well over past months, declined by 6.8% for the week just ended.

This week will certainly hold more substance, as the Federal Open Market Committee (FOMC) is scheduled to meet on Tuesday and Wednesday (Mar. 20 and 21). The widespread belief is that the Federal Reserve (the Fed) will raise the Federal Funds rate by 25 basis points (0.25%) to a target range of 1.50% to 1.75%.

If rates are increased, it will be the sixth time the Fed has bumped them up since it started on the path toward monetary policy normalization in late 2015.

The chart below puts the Fed's recent actions in a longer-term context, as it details the upper band of the targeted Fed Funds rate over the past decade. It begins in March 2008, shortly after the onset of what would become known as the Great Recession, and details the moves to take rates to essentially zero, in an effort to help heal the economy. There was then a period of roughly seven years in which the Fed held rates at those extremely low levels, before it finally began to raise rates a little over two years ago.

Federal Funds Target
(Upper Limit of Range)
Ten Years: 3/2008 – 3/2018



Source: FactSet, Inc.

U.S. Stocks End Lower for the Week

The S&P 500 ended last week lower by -1.2%, which reduced its return for 2018 to 3.4%.

Small cap equities, as measured by the Russell 2000 Index, did a bit better, declining by -0.7%. They are now up 3.5% for the year.

The news for equities outside the United States was more encouraging, as international stocks, as measured by the MSCI EAFE Index, ended the week higher by 0.2%. Emerging markets stocks (MSCI EM Index) advanced 0.5% for the week, to bring their return for 2018 to 5.0%.

After a rough January, 10-year U.S. Treasury bonds continued their recent trading in a relatively narrow price band, with yields drifting lower by five basis points (0.05%) over the five-day period, to end Friday's (Mar. 16) trading at 2.85%.

Chairman Powell on Deck

Comments from U.S. corporations have been favorable with respect to business prospects for 2018. This is no doubt due, at least partially, to the Tax Cuts and Jobs Act's tax cuts for corporations and most individuals, coupled with improving economies around the world. The announcement related to tariffs, however, has certainly created a bit of uncertainty.

It remains to be seen what other countries will do in response to the recent moves by the United States, but most economists believe there are no winners in a trade war. We will continue to monitor this closely, but in the end, are hopeful that any actions taken will do little to derail the current strength of the U.S. economy.

New Fed chairman Jerome Powell will have his chance to weigh in on the strength of the U.S. economy at the FOMC meeting mid-week. This will come in the form of any increase in the Fed Funds rate, followed by Mr. Powell's first post-FOMC meeting news conference on Wednesday afternoon (Mar. 21).

Against this backdrop, we currently see no reason to alter our emphasis on stocks with strong fundamentals across the market cap spectrum. As to fixed-income monies, with the Fed expected to continue along the path to normalize rates, we believe it prudent to maintain a posture that limits interest-rate risk.

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