Market Summary – May 29, 2018

For the week ending May 25

This summary is provided by BMT Wealth Management.

Geopolitics, Oil, and Interest Rates

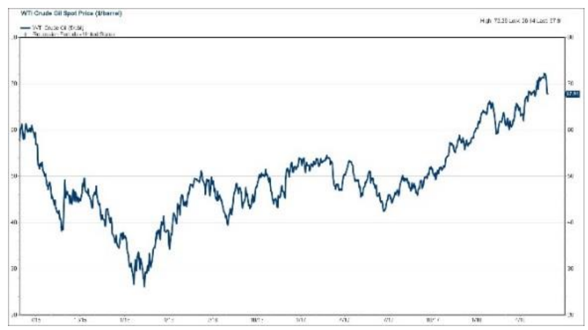
Geopolitical issues took center stage last week, dominating many of the mainstream and financial news headlines. The releases included reports of a potential summit meeting with North Korea on June 12, as well as trade tariff concerns with China.

However, a key geopolitical issue, and one having more immediate economic consequences, involves an agreement between Saudi Arabia and Russia to expand oil production. These two countries, along with the United States, make up the top three oil exporters around the globe.

The graph below highlights the price of oil on a per-barrel basis over the last three years. In early 2016, West Texas Intermediate (WTI) crude oil descended to $26/barrel, before rising to the area of $72/barrel early last week. The agreement to expand oil production caused the commodity to drop to under $68/barrel by the end of last week.

The decline in the underlying commodity sent the price of energy stocks, as measured by the Energy Select SPDR (XLE), down -6.0% between mid-day Tuesday (May 22) and the close on Friday (May 25).

West Texas Intermediate (WTI) Oil/Barrel: Three Years Ending 5/25/2018

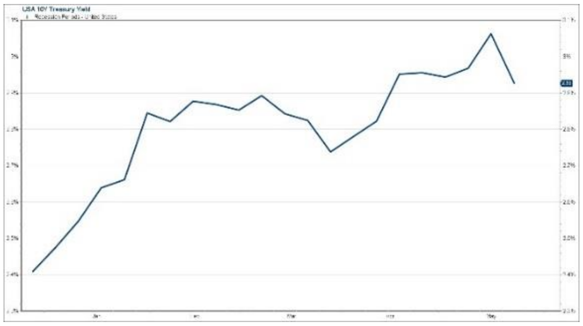


Source: FactSet, Inc.

Almost in sync, U.S. Treasury bond prices staged a comeback from the recent rise in interest rates (prices move inversely to rates). Wednesday's (May 23) release of the minutes of the Federal Open Market Committee meeting of May 1-2 revealed a willingness by Committee members to allow inflation to run higher than their 2.0% target for a "temporary" period of time before any acceleration in the current pace of rate hikes.

As noted in the graph below, the yield of the ten-year U.S. Treasury bond declined from 3.06% on Tuesday (May 22) to 2.93% at the week's close.

**Ten-Year U.S. Treasury Bond Yield:
Year to Date through 5/25/2018**



Source: FactSet, Inc.

**Performance by Market Cap:
Year to Date through 5/25/2018**

Source: FactSet, Inc.

Equity Markets and Small Caps

Despite the headlines and price movements in commodities and interest rates, equity markets moved further into positive territory last week. The S&P 500 was ahead a modest +0.31% for the week, with the tech-heavy Nasdaq Composite advancing +1.08% on a price-only basis.

Smaller-capitalization stocks, as measured by the Russell 2000 Index (orange line in the graph below), have been the best-performing market cap stratum on a year-to-date basis. The Russell 2000 is ahead +6.44% year to date through Friday (May 25), beating the large-cap weighted S&P 500 Index (blue line, +2.58%) and the S&P Mid Cap 400 Index (yellow line, +3.03%).

In our opinion, lower tax rates, and the greater effect they have on companies with a high percentage of revenues derived from domestic sources, have contributed to the positive performance of the small-cap stratum.

Our View

General economic growth, corporate earnings, and relatively nominal interest rates continue to provide upside, albeit subdued, momentum for stocks. However, we believe that valuation is the key to selectivity and performance.

The rise in short-term bond yields and the flattening yield curve have provided investors the opportunity to earn additional yield without having to take on extensive duration risk. In this regard, we continue to focus on the short to intermediate part of the yield curve.

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