Market Summary – June 4, 2018

For the week ending June 1

This summary is provided by BMT Wealth Management.

U.S. Economy Continues to Drive Unemployment Rate Lower

Events in Italy and the May U.S. unemployment report bookended the holiday-shortened four-day trading week (the markets were closed on Monday (May 28) in observance of Memorial Day).

Italy is witnessing anti-Euro political turmoil, which has investors once again examining the debt loads of certain southern European countries, along with the likely long-term makeup of the European Union itself.

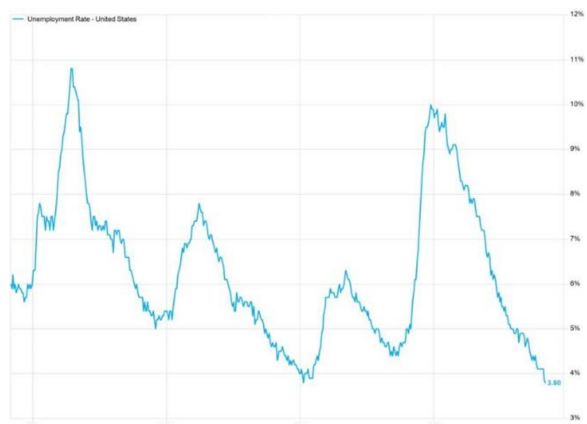
Against this backdrop, when U.S. markets opened on Tuesday (May 29), they joined other markets in a sharp move lower. The Dow declined by more than 500 points, before paring its losses late in the day to end lower by just under 400 points.

Stocks then rebounded on Wednesday (May 30), as investors reassessed the events in southern Europe. By the close of the week, the Dow had regained a large portion of the ground it ceded on Tuesday, finishing the week with a decline of less than 120 points, or -0.38%.

The recovery in the financial markets was aided by Friday's (June 1) release of May employment data, which continued to provide evidence of the strength of the U.S. economy.

For the month of May, the U.S. economy added 223,000 nonfarm jobs, versus the consensus estimate of 190,000. The unemployment rate also moved lower and now stands at 3.80%, which, as the graph below shows, equals a level most recently seen in April 2000. The last time the rate was lower than the current reading was in 1969.

U.S. Unemployment Rate: 40 Years Ending 5/31/2018



Source: FactSet, Inc.

International Equities End the Week Lower

The S&P 500 Index saw a similar trading pattern as the Dow, but actually ended last week modestly higher (+0.54%). For the year, the Index has returned 3.13%.

Small-cap stocks, as measured by the Russell 2000 Index, did much better, hitting an all-time high and ending with a four-day gain of 1.32%.

International markets (MSCI EAFE Index) finished out the week lower by -1.00%, with emerging markets (MSCI EM Index) tallying a decline of -0.51%.

In a flight to quality, bonds rallied sharply during Tuesday's stock selloff, with the yield on the 10-year U.S. Treasury declining by 15 basis points (-0.15%). As stocks recovered from Tuesday's losses, bonds sold off, with the 10-year yield ending the week at 2.90%, or just 3 basis points (-0.03%) lower than where it started the week.

Wages and the Economy

With the unemployment rate now at such low levels, wage growth has received much scrutiny. The concern is that higher wages will translate to higher inflation, which could ultimately result in an end to what is now the second-longest economic expansion on record.

In Friday's report on the economy, the Labor Department indicated that average hourly earnings increased by 2.7% year-on-year, which was modestly higher than the prior month's increase of 2.6%.

While trending higher, this figure is still relatively low by historical standards, as the graph below illustrates. As research firm Strategas Research Partners has been noting, in the last three recessions (gray bars in the graph), wage growth has hit 4% prior to the onset of the recession, which is still a good bit higher than current levels.

Average Hourly Earnings:
Production & Nonsupervisory: Total Private Industries
% Change Year over Year; SA, $/Hour
1/1978 – 5/2018

Source: Bureau of Labor Statistics

Still, against this backdrop, we remain watchful of the impact higher inflation will have on the value of financial assets and the economy.

With respect to fixed-income assets, we favor shorter-duration obligations, to better position portfolios for a rising rate environment.

As to equities, we continue to focus on companies with solid balance sheet metrics across the market cap spectrum.

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