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Market Summary – August 13, 2018

For the week ending August 10

This summary is provided by BMT Wealth Management.

Global Economics in Focus

On Friday (Aug. 10), Turkey's currency plunged to its lowest level ever on worries about the country's stability. The lira declined by nearly 16% against the U.S. dollar, and thus far in 2018, is now lower by roughly 41% as compared to the U.S. dollar.

Friday's move was precipitated by the President of Turkey, Recep Tayyip Erdoğan, defending his policies in two speeches, coupled with increased rhetoric between Turkey and the United States (including increased U.S. tariffs announced on Turkish goods).

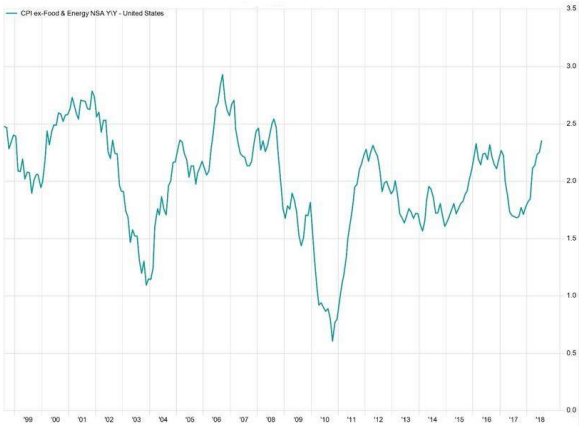
With the value of the lira in freefall, Turkey's debts denominated in foreign currencies become harder to service. This raised concerns within the European banking community, and global equity markets in general, with the dreaded word "contagion" again surfacing.

European markets were particularly hard hit on Friday, suffering from both declining share prices and a declining Euro (relative to the U.S. dollar). For the week, international stocks (MSCI EAFE Index) ended lower by -1.46%. Domestic equities, as measured by the S&P 500, were having a decent week heading into Friday, but gave back their gains and finished the five-day period with a modest decline of -0.18%.

On the home front, the Producer Price Index (PPI) was released on Thursday (Aug. 9), and the Consumer Price Index (CPI) was released on Friday. The PPI figure came in lower than expected at 0.0% for the month of July, while the CPI increased 0.2%.

The graph below tracks the year-over-year increase in the Core CPI (excluding Food and Energy) for the period August 1998 through July 2018.

U.S. Core Consumer Price Index
Year/Year Increase:
8/1998 - 7/2018



Source: FactSet, Inc.

The Core CPI posted a year-over-year increase of +2.4% and is now running as high as it has been since 2008. While moving higher, it is difficult to say that inflation has yet to meaningfully break out to the upside, particularly when viewed in the context of long-term trends as noted in the graph.

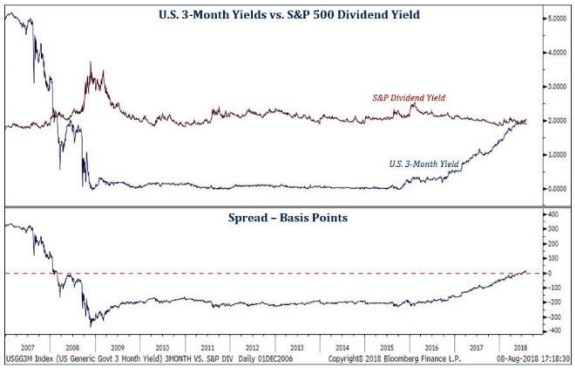
Treasury Bill Yields Climb Above Stock Dividend Yields

To help combat the forces of the Great Recession of 2008-09, the Federal Reserve (the Fed) cut short-term interest rates to essentially zero. This pulled other short-term interest rates lower, including the yield on 90-day Treasury Bills, which held at under 0.25% for much of the period from 2009 until 2015.

That rate started to move higher in late 2015, when the Fed began to raise the fed funds rate. It has been slowly trending higher ever since, picking up pace in 2017 and 2018, as the Fed increased the cadence of its interest-rate hikes.

The less accommodative stance by the Fed has now propelled short-term interest rates to rival the dividend yield on the S&P 500.

U.S. Three-Month Yield vs. S&P 500 Dividend Yield: 12/1/2006 – 8/8/2018



Source: Strategas Research Partners

While short-term debt obligations offered investors little reward in terms of yield for much of the past decade, that is clearly beginning to change, as the Fed normalizes rates.

Good Numbers, But More to Watch

The U.S. economy continues to perform well, as second-quarter corporate earnings were reported at a strong pace. Through Friday (Aug. 10), with 91% of S&P 500 companies having reported, second-quarter earnings came in ahead +24.61% on a year-over-year basis. What is more impressive is that sales (the top line) rose almost +10%.

Two fundamental factors for equity valuations – economic growth and corporate profitability – remain positive influences on stock prices. However, the rise in inflationary pressures, and thus interest rates, has begun to create more competition for stocks and therefore the higher likelihood of volatility.

BMT in the Press

Bryn Mawr Trust professionals are regularly sought after by the media for their insights on financial matters. The following is a recent highlight.

Treasuries - U.S. Bond Yields Fall on Trade Tensions Before Refunding (8/6/2018)
Reuters turned to Jim Barnes, Director of Fixed Income at BMT, for expert commentary on bond market activity. Jim explained how recent trade tensions have increased the demand for bonds as a safe haven, although expected U.S. Treasury issuance may put upward pressure on bond yields.

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