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Market Summary – September 10, 2018

For the week ending September 7

This summary is provided by BMT Wealth Management.

Equities Lower Around the Globe, Emerging Markets Enter Bear Market

Against the backdrop of strong quarterly earnings, domestic equities ended August with a relatively steady run to the upside, as the S&P 500 advanced each of the last three weeks of the month. The cumulative gain for those 15 trading days was just over 2.5%.

With the second-quarter earnings season largely in the books, however, other issues took center stage for investors as trading commenced after Labor Day.

One such item was tariffs, retaliation for those tariffs, and the threat of added tariffs.

Another was provided mid-week, when some large cap, social media companies came under fire during Congressional Committee testimony for how their services are used and managed. This raised the possibility of added regulation.

These issues, which admittedly have been ongoing, were not supportive of a continued move to the upside.

After hitting an all-time closing high on the third last trading day of August, September saw the S&P 500 cede ground each day of the holiday-shortened trading week. Over the four days, the Index lost -0.98%, to pare its year-to-date advance to 8.86%.

The damage to the tech-heavy NASDAQ was far greater, as that index declined by -2.53%. However, with its outsized gains earlier in the year, the NASDAQ is still up 15.34% in 2018.

International (MSCI EAFE Index) and emerging markets (MSCI EM Index) equities, which were already underperforming U.S. equities in 2018, had a particularly rough week, declining -2.83% and -3.06%, respectively.

Of note, the damage in the emerging markets was enough to shift those stocks into a bear market, which is widely defined as a decline of 20% from a prior high (reached on Jan. 29, 2018).

The chart below shows the marked difference in return by geography in 2018. The S&P 500 Index is represented by the green line, the MSCI EAFE Index by the light blue line, and the MSCI EM Index by the maroon line.

Year-to-Date Total Returns:
1/1/2018 – 9/7/2018

Source: FactSet, Inc.

Hiring and Wages Exceed Estimates

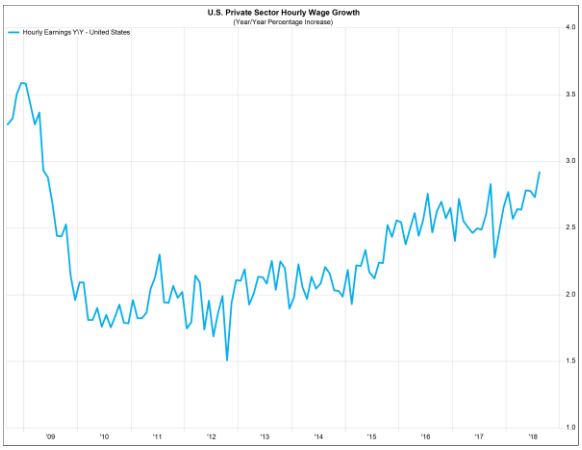
Intermediate-term U.S. Treasuries had provided a bit of a safe haven to the declines in equity prices last week, at least until 8:30 a.m. on Friday (Sept. 7), when the Department of Labor released the employment information for the month of August.

The news on the hiring front exceeded expectations, with nonfarm payrolls up 201,000 for the month, versus a consensus estimate of 189,000. Likewise, average hourly earnings moved higher by 2.9% (year/year), versus an estimate of 2.8%.

These figures provided fresh evidence to the underlying strength of the U.S. economy and sent Treasury prices lower across the yield curve. For the day, the yield on both the two-year Treasury note and the 10-year note moved higher by roughly 7 basis points (0.07%), to end at 2.71% and 2.94%, respectively.

As we have noted in the past, the average hourly earnings figure (detailed in the chart below) is currently a major focus for bond investors, with the belief that the decreasing pool of available workers will eventually translate into more robust wage growth, and thus higher inflation. Were this to be the case, it could force the Fed to move more aggressively to combat the threat of higher inflation.

U.S. Private Sector Hourly Wage Growth (Year/Year Percentage Increase): 9/2008 – 8/2018



Source: FactSet, Inc.

Inflation and the Fed

As to the underlying trends of inflation, the next data points arrive on Wednesday (Sept. 12), with the Producer Price Index, and Thursday (Sept. 13), with the Consumer Price Index.

The Federal Open Market Committee (FOMC) next meets in two weeks (on Sept. 25-26), and markets clearly anticipate another move higher in short-term rates. The futures markets are estimating the probability of such a move at over 96%. This would be the third rate hike this year, and the focus would then turn to the FOMC's December meeting and the possibility of a fourth hike.

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.

Nasdaq and S&P 500 Fall Amid Big Sell-Off in Netflix, Tech Shares (9/5/2018)
Ernie Cecilia, Chief Investment Officer at BMT, spoke with CNBC.com to explain how potential regulation for social media companies and valuation concerns can impact stocks in the tech sector.

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