



## Market Summary – September 24, 2018

*For the week ending September 21*

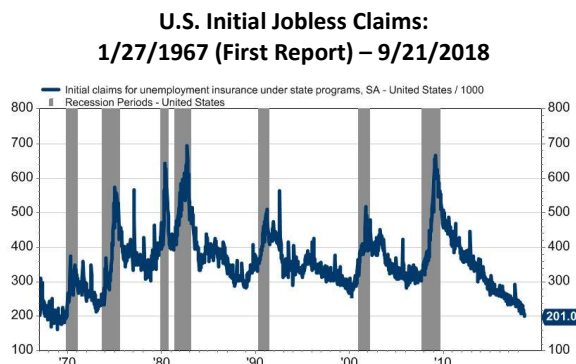
*This summary is provided by BMT Wealth Management.*

### Equity Markets, Trade, and Strong Employment Data

Global equity markets rallied last week, with some U.S. market equity indices reaching new highs. Markets reflexively adjusted to the view that trade wars and tariffs would be less onerous than expected to the U.S. consumer and most domestic companies.

Supporting this view, the economic expansion, particularly in the United States, continues at a strong pace. Last week, markets seemingly came to the collective realization that the gross effects of higher import costs would be small relative to the positive effects of tax cuts and less regulation.

Domestic employment data is indicative of this strong expansion, as weekly initial jobless claims reported on Thursday (Sept. 20) hit a level last seen more than 48 years ago, in December 1969.



Source: FactSet, Inc.

In the euphoria, the broad S&P 500 Index and the narrower Dow Jones Industrial Average each recorded record highs last week. There is clearly faster growth domestically than there is overseas, but non-U.S. equity markets also ran higher on the tailwinds provided by the U.S. markets.

The 10-year U.S. Treasury bond rose in yield to close the week at 3.06%.

### Wage Pressures and The Yield Curve

Strong employment is beginning to show up in pressures on the wage front. Through Aug. 31, year-over-year wages rose at a rate of +2.9%. This pace, while still under the +4.0% level often seen as an inflection point, has been on the rise with continued improvement in the broad employment picture.

Together, these positive economic events have raised expectations that the Federal Reserve will accelerate the pace of short-term interest rate increases.

According to fed funds futures trading, there is currently a 98% probability of a 25-basis-point (+0.25%) increase in the overnight fed funds rate, up to a range of 2.00% to 2.25%, at the FOMC's meeting this week (Sept. 25-26).

Looking to the near future, there is a 73.2% expectation for a similar hike – to 2.25% to 2.50% – on Dec. 19, and a 50.2% expectation for a further increase – to a range of 2.50% to 2.75% – on March 20, 2019.

A faster increase in short-term interest rates would place additional upward pressure on the front end of the yield curve, and thus the slope of the curve.

As noted above, the yield curve (two-year to 10-year spread) remains positively sloped (+22.5 basis points), but has narrowed considerably since early 2017.

**Yield Spread:  
10-Year U.S. Treasury Minus  
Two-Year U.S. Treasury Bond**



Source: FactSet, Inc.

Risks rise as economic and market cycles mature. Our investment research process remains focused on identifying entities with strong fundamental underpinnings and reasonable valuations. Our portfolio construction process is designed to build diversified portfolios for our clients across various asset and sub-asset classes in order to build wealth and reduce risk.

## 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.

### The Market Is Being Complacent in the Wake of Trade Issues (9/20/2018)

With equity markets advancing strongly to the upside, [CNBC](#) turned to Ernie Cecilia, Chief Investment Officer at BMT, for his insights on potential risks to the market rally. Ernie explained that his team monitors a number of indicators, such as wage growth and the slope of the yield curve, that may signal the onset of faster inflation, a potential risk to the bull market.

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