



Market Summary – October 1, 2018

For the week ending September 28

This summary is provided by BMT Wealth Management.

Macroeconomic Overview: Consumer Confidence Surges And the FOMC Drops No Surprises

The threat of further tariffs and ongoing tensions between the United States and its largest trading partners, as well as evidence of slowing economic growth overseas, have done little to dampen the sentiment of American consumers.

In fact, The Conference Board Consumer Confidence Index has reached the highest level we have seen in this business cycle and is on the verge of attaining a level not seen since the height of the 1990s dot-com bubble nearly 20 years ago.

When looking at the chart below, it raises questions about whether the peak of this business cycle has been reached. Consumer confidence is one of the indicators we follow, given that a sharp decline from elevated levels has preceded each of the last five recessions.

**The Conference Board Consumer Confidence Index:
1/1/1980 – 9/30/2018**



Source: FactSet, Inc.

Consumer sentiment is still rising, and other leading and coincident economic indicators we follow are not flashing “red” at the moment. That gives us some comfort that a recession does not appear to be in the immediate offing.

As widely anticipated, members of the Fed, who are voting participants of the FOMC, raised the target range for the federal funds rate last week to 2.00% to 2.25%, up from a range of 1.75% to 2.00%.

Unlike other recent FOMC statements, the one issued after last week’s FOMC meeting did not include the sentence, “The stance of monetary policy remains accommodative.” Fed Chairman Jerome Powell was adamant that the removal of such language did not signify any change in the likely path of monetary policy and that the Fed still expects “further gradual increases in the target range for the federal funds rate.”

Financial Market Recap

September has historically been a month of elevated market volatility. Despite various macroeconomic concerns, such as tariffs, a slowdown in China, Italy’s budget woes, and emerging market exchange rates, markets stayed within a relatively narrow trading range for the month.

As the chart below illustrates, most major asset classes, except for domestic small-cap stocks (i.e., the Russell 2000 Index), posted returns within +/- 1% during September.

Index	1 Week Ending 9/28/2018 Return (%)	1 Month Ending 9/28/2018 Return (%)
S&P 500 TR USD	-0.51	0.57
Russell 2000 TR USD	-0.86	-2.41
MSCI EAFE NR USD	-0.88	0.87
MSCI EM NR USD	-0.26	-0.53
BBgBarc US Agg Bond TR USD	0.17	-0.64

Source: Morningstar

Last week, large-cap stocks, as measured by the S&P 500 Index, fell -0.51%, while small-cap equities (Russell 2000 Index), fared slightly worse, declining -0.86%. International markets experienced similar declines.

Financial stocks were notable laggards for the week, declining more than 4.0%. Banks tend to be sensitive to interest-rate fluctuations, and the continued flattening of the yield curve over recent months has raised concerns about future bank profitability. Continued underperformance

of Financials may cause investors to fear that the Fed is being too hawkish with monetary policy.

On the fixed income side, interest rates fell across the yield curve after Wednesday's (Sept. 26) FOMC statement was released. The two-year and 10-year yields closed out the week at 2.81% and 3.05%, respectively.

This coming week, investors will receive Purchasing Managers' Index (PMI) data as well as the September employment report. They will be looking for further confirmation that strong economic momentum remains in place.

The earnings season will commence soon, and we will have the opportunity to see whether news surrounding tariffs is starting to affect corporate profit margins.

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.

How the National Debt Affects You (9/26/2018)

With the U.S. national debt at \$21.5 trillion, [U.S. News & World Report](#) spoke to Jim Barnes, Director of Fixed Income at BMT, to discuss the implications of the growing national debt on investors. Jim explained that as the budget deficit increases, the government issues more Treasury securities, which may lead to lower prices and higher interest rates for bondholders.

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