Market Summary – October 9, 2018

For the week ending October 5

This summary is provided by BMT Wealth Management.

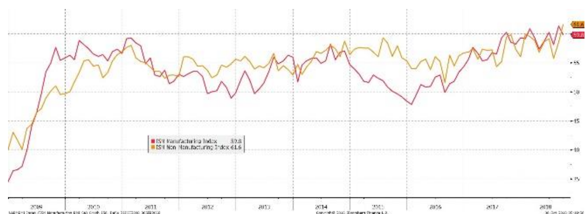
Economic Data: U.S. Economy Remains Robust

U.S. economic data reported this past week provided further evidence that U.S. economic growth is not only expanding, but growing at a robust pace. Both the U.S. service and manufacturing sectors remain clearly in expansion mode, while hiring managers are trying to keep up.

The ISM Manufacturing Index came in at 59.8 for September, near its high for the year. A number above 50 indicates U.S. economic expansion. Fears of tariffs and higher production costs weighing on the manufacturing sector have yet to be notably justified. Instead, new orders and production readings within the Index currently reflect a stable and strong manufacturing sector.

The ISM Non-Manufacturing Index jumped to 61.6 in September, the highest level since 1997. The service sector, which is more insulated from the trade-war rhetoric than the manufacturing sector, has benefited from a healthy labor market and favorable fiscal policy. Also, a high reading on new orders within the Index is a positive sign that the service sector is well positioned to support economic growth for the remainder of the year.

ISM Manufacturing and ISM Non-Manufacturing: 12/31/2008 – 9/30/2018



Source: Bloomberg Finance L.P.

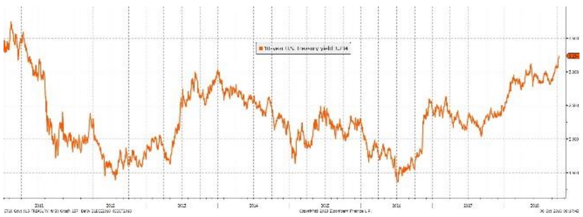
U.S. company hiring managers have been actively trying to keep up with the growing economy and the increasing number of job openings. The unemployment rate dropped to 3.7% in September, the lowest reading since 1969 – a 48-year low. The participation rate held steady at 62.7%.

Financial Markets: Bond Yields Jumped Higher

Overall, the positive economic data reported last week provided further support for higher interest rates down the road.

U.S. Treasury yields spiked across the yield curve, with the two-year and 10-year U.S. Treasury yields increasing seven basis points (0.07%) and 17 basis points (0.17%), respectively. The 10-year U.S. Treasury yield reached its highest level in seven years, closing the week at 3.23%.

10-Year U.S. Treasury Yield:
12/31/2010 – 10/5/2018



Source: Bloomberg Finance L.P.

Also last week, inflation expectations increased slightly, while U.S. government securities modestly outperformed corporate bonds.

Financial Markets: Falling Equity Prices

The jump in bond yields was too much for equity investors to handle last week. After closing in on a new record high mid-week, the S&P 500 Index retreated the last couple of trading days and ended the week down roughly 1.0%. The Consumer Discretionary and Real Estate sectors led the Index lower and were down -4.37% and -2.71%, respectively.

Financials had a good week and were up 1.59% on the heels of a steeper yield curve and higher interest rates – a combination that supports bank profitability. Energy companies also performed well, up 1.86%, taking their cue from higher energy prices. Oil prices were up roughly 1.50% on the week.

Overseas, the MSCI EAFE Index, representing developed international equities, dropped -2.34%, while higher U.S. bond yields got the best of the emerging markets. The MSCI Emerging Markets Index dropped -4.48%.

Looking Ahead

We see the recent move to higher yields being a function of a strong domestic economy, rather than a noticeable uptick in inflationary pressures. As a result, we remain generally optimistic about the course of the financial markets over the near term. We remain equally vigilant, however, about the potential effects of wage and commodity price pressures in the long term.

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