BRYN MAWR TRUST

Market Summary – October 29, 2018

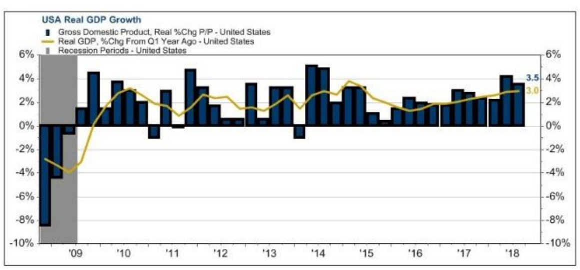
For the week ending October 26

This summary is provided by BMT Wealth Management.

Economic Growth Is Strong, Yet Equities Continue to Sell Off

According to the U.S. Bureau of Economic Analysis, third quarter 2018 real GDP rose 3.5%. As the chart below illustrates, this is the first time since 2014 that real GDP growth increased by at least 3.5% in two consecutive quarters.

Real GDP:
Percent Change from Preceding Quarter and Trailing 12 Months
12/31/2008 – 9/30/2018



Source: FactSet, Inc.

With economic growth showing no visible signs of abating and corporate profits at all-time highs, why has the stock market continued to fall precipitously? The S&P 500 Index declined nearly -4.0% last week alone, and it is down -9.1% for the month of October through Friday (Oct. 26).

The narrative on market corrections is always written with the benefit of 20/20 hindsight, and there are usually several factors that work in tandem. That said, it appears that markets currently have concerns over "peak growth" and decelerating corporate profits going forward, as the Fed continues to raise interest rates.

Earnings growth has been robust since the second half of 2017, and it exceeded 20% year-over-year at the end of the second quarter of 2018. While the third-quarter earnings reports released thus far have been generally positive, corporate management teams on several earnings calls have indicated that growth may be more muted going forward.

In addition, commentary from the Fed's Beige Book, which is a compendium of economic activity in the 12 Federal Reserve districts across the country, did little to alleviate concerns about peak profit margins. Overall, statements were largely favorable, but they included the following: "Several Districts indicated that firms faced rising materials and shipping costs, uncertainties over the trade environment, and/or difficulties finding qualified workers."

Equity Market Volatility in Context

While market corrections are never easy to endure, 10%+ declines have occurred on several occasions, even during extended bull markets.

The chart below lists the periods from 1997 through the first quarter of 2018 when the market has fallen more than 10% in the absence of a recession or bear market.

Market (S&P 500 Index)
Corrections of -10% or Greater,
Absent Recession or Bear Market

Start	Trough	Correction Magnitude	Duration (Months)	Return 3 Months After
10/7/1997	10/27/1997	-10.8%	0.7	10.5%
7/17/1998	8/31/1998	-19.3%	1.5	21.6%
9/23/1998	10/8/1998	-10.0%	0.5	32.9%
7/16/1999	10/15/1999	-12.1%	3.0	17.5%
11/27/2002	3/11/2003	-14.7%	3.4	24.6%
4/23/2010	7/2/2010	-16.0%	2.3	12.1%
4/29/2011	10/3/2011	-19.4%	5.2	16.2%
5/21/2015	8/25/2015	-12.4%	3.2	11.8%
12/29/2015	2/11/2016	-12.0%	1.4	12.9%
1/26/2018	2/8/2018	-10.2%	0.4	3.5%

Source: Strategas Research

Looking Ahead

We have previously indicated that equity market volatility had been abnormally low entering 2018, and we are not too surprised to see more significant price fluctuations at the later stage of the current economic and market cycle.

However, several macroeconomic indicators we follow (credit spreads, consumer and business confidence, employment data, etc.) are not suggesting that a recession is imminent over the next six to 12 months. The most severe bear markets have been accompanied by recessions, which is the reason we monitor economic fundamentals.

Markets will seek to find a “tradeable” bottom. It remains to be seen whether the “bell” was rung last week or has yet to be sounded.

In this environment, we recommend that investors not make any rash decisions or attempt to time the market by making wholesale changes to their portfolio allocations.

As markets eventually recover, investors should use these opportunities to adjust allocations to reflect their sensitivities to return and risk.

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