



Market Summary - December 10, 2018

For the week ending December 7

This summary is provided by BMT Wealth Management.

Equity Market Overview: What a Difference Relative to This Time Last Year

This time last year, the S&P 500 Index had appreciated nearly 20% over the previous 12 months and the VIX (CBOE Volatility Index) reached a record low. International equity market returns were even more robust over that period and the consensus view, as the final trading sessions of 2017 were drawing near, was that the global economy was experiencing synchronous growth.

Fast forward to today and the S&P 500 Index is at nearly the same level it was this time last year, up just over 1%. In addition, volatility has been trending higher as stocks have already endured two corrections of 10%+ in 2018 and the year hasn't even ended.

One may ask how this is possible when earnings growth has been robust (up over 20% year-over-year within the S&P 500 Index) and economic growth has continued to accelerate, at least in the United States.

First, markets don't always trade based on fundamentals (earnings and economic backdrop).

Second, negative headlines, which often have no impact on corporate operations, can adversely affect investor sentiment.

Last, and most important, financial markets are always looking ahead and are more concerned about the future rate of change (delta) in the fundamental data, not necessarily where levels currently stand.

Selling pressure intensified last week, especially within U.S. equity markets. Large cap stocks, as measured by the S&P 500 Index, fell approximately -4.5% with most of the decline occurring on Friday. Small cap stocks, as measured by the Russell 2000 Index, fared even worse and declined over -5.5%.

A combination of uncertainty over trade relations with China, negative headlines surrounding Brexit, and the concerns about future growth, given the continued flattening of the yield curve, seemed to be the main culprits of the most recent bout of volatility. However, there could be something else lurking beneath the surface, such as worries over corporate debt levels or concerns about operating margins given higher labor costs, that could be the main driver of this heightened period of volatility.

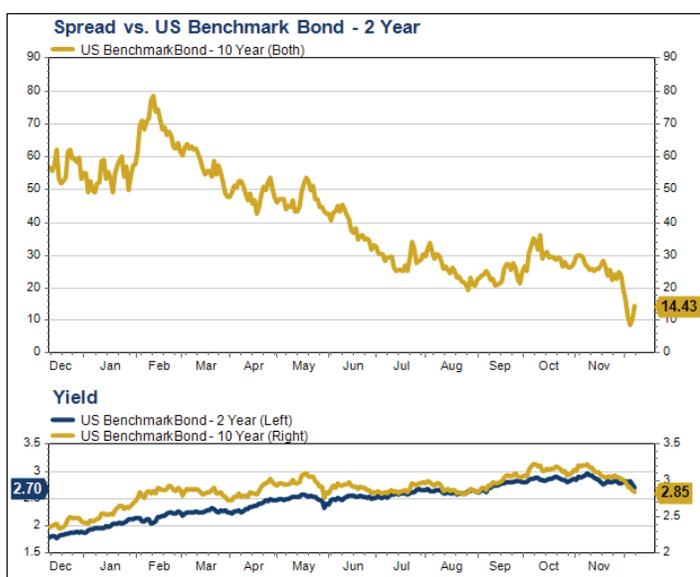
Fixed Income Recap: Yield Curve Continues to Flatten

It's been more than a week since Jay Powell, Fed Chair, made a speech at the Economic Club of New York that provided some indication that the Fed could be less aggressive with its monetary policy (i.e., fewer rate hikes). Since that speech, interest rates across the yield curve have continued to fall despite strong ISM Manufacturing data and another solid, but below consensus, employment report for the month of November.

Credit spreads for both investment grade bonds and high yield bonds have been rising, which isn't too surprising given that investors typically seek the safety of Treasuries as riskier assets fall in price. Credit spreads were very tight as we entered the fourth quarter and haven't reached levels that signify a recession is imminent.

One thing we are carefully monitoring is the spread between short maturity (2-Year Treasuries) and longer maturity (10-Year Treasuries) as illustrated in the chart below. The spread is the difference between the 10-Year Treasury (currently 2.85%) and the 2-Year Treasury (2.70%). Every time over the last seven business cycles this spread has turned negative (2-Year greater than the 10-Year) a recession has followed, typically within two years. While we don't think a recession is in the immediate offing, a negative spread would not be welcomed by the financial markets.

2-Year and 10-Year Treasury Interest Rates and Spread
1 Year Ending 12/7/2018



Source: FactSet, Inc.

Looking Ahead

This week, the markets get to mull over inflation data and November retail sales to see if the concern over tariffs has manifested into rising prices and affected consumer spending. Looking out further, the FOMC (Federal Open Market Committee) will be meeting the following week (Dec. 18-19), which will get the markets' attention.

As we have stated in the past, market corrections can be quite unsettling and are never fun to endure. However, we continue to recommend that investors not make any major changes to portfolio allocations in attempt to actively trade in and out of the market, which can be quite detrimental to longer-term returns.

We will continue to monitor market conditions and keep you apprised of any change in our outlook.

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.

It took just one week for a \$1 trillion wipeout in U.S. stocks (12/07/2018)

As U.S. markets hit correction territory at year-end, [Bloomberg](#) turned to Ernie Cecilia, Chief Investment Officer at Bryn Mawr Trust, for expert insight. Ernie put the latest drawback in perspective and explained that the market is repricing stocks to normalize their growth rates. [Click here](#) to read the article.

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