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Market Summary - January 7, 2019

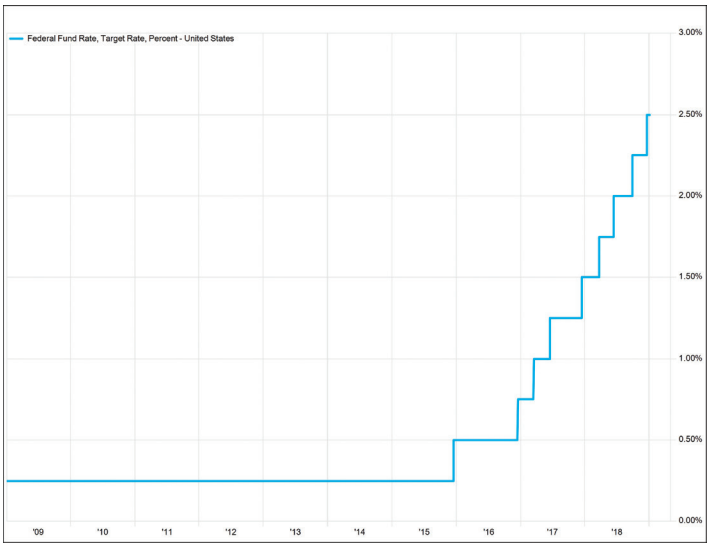
For the week ending January 4

This summary is provided by BMT Wealth Management.

Chairman Powell Speaks, Again

When the Federal Open Market Committee (FOMC) members concluded their two-day meeting on December 19, 2018, they announced an increase in the federal funds rate to a targeted range of 2.25-2.50%. This was the ninth such increase in the current rate hiking cycle. The markets had largely anticipated the move.

Fed Funds Target Rate – Upper Range
(Trailing 10 years)



Source: FactSet, Inc.

However, because the S&P 500 had shed just under 12% since the September 26, 2018 FOMC meeting, many thought the Fed would meaningfully back off on their future path to raising interest rates and could revisit the pace of balance sheet reduction. In the post meeting press conference, Chairman Powell dashed those hopes when he stated that recent developments in the financial markets, along with moderating growth in other economies, had not fundamentally altered the Fed's outlook on economic growth. The equity markets thought otherwise, with the Dow Jones Industrial Index (DJIA) falling by over 500 points while Chairman Powell spoke.

Chairman Powell spoke again last Friday (Jan. 4, 2019), this time in Atlanta at the American Economic Association's annual meeting. He said, "We're always prepared to shift the stance of policy and to shift it significantly if necessary." The words seemingly telegraphed a more flexible posture from the Fed. While the equity markets had opened higher on Friday on the strength of the December employment report, they vaulted higher still on the utterances from Chairman Powell.

By the close of trading, the DJIA had posted an advance of 747 points, good enough to pull it into positive territory (+0.50%) for the year-to-date. The S&P 500 is now up 1.03% in 2019, with the small cap Russell 2000 Index higher by 2.40%.

December Jobs & Wages

As noted above, financial markets were in rally mode early Friday morning on the strength of the December jobs report. Estimates called for an increase of 180,000 nonfarm payrolls but the actual number came in at very strong 312,000 new hires. Adding to the robust report were positive revisions to the number of jobs added in each of the prior two months, along with 3.2% growth in average hourly earnings over the past year, which was also higher than expected.

One criticism of the economic recovery since the Great Recession has been the anemic growth in wages. Recent reports indicate wages finally appear to be trending higher,

which would be good for consumers and consumer spending, which accounts for roughly 70% of the U.S. economy.

10-Year Treasury Yields Approach 52 Week Lows

Yields have trended lower (prices higher) over the past few months, as investors started to question the strength of the economy and sought a safe haven from declining stock prices. When the 10-year U.S. Treasury note closed with a yield of 2.56% on Thursday (Jan. 3, 2019), it had shed roughly 60 basis points (0.60%) over the past three months and was fast approaching a 52-week low.

U.S. Treasury Note Yield – 10 Year Constant Maturity (Trailing One Year)

Source: FactSet, Inc.

On Friday (Jan. 4, 2019), however, the combination of the December jobs report and the comments from Chairman Powell, caused rates to reverse direction, at least for the day. The yield on the 10-year Treasury note rose to 2.67%. The yield on 2-year note saw a particularly sharp reversal, ending Friday at 2.49%, vs. 2.39% from the day prior, for its biggest one-day jump in yield in almost four years.

Volatility Likely to Continue

While little in life is certain, the volatility in financial markets seems sure to persist over the near-term—as markets continue to deal with a myriad of factors, including: trade, Fed policy, and upcoming quarterly earnings reports.

Given the current environment, we believe the forward "guidance" from companies, when they announce quarterly results, will take on much greater importance than is usually the case. As always, we will closely and diligently monitor these results and the narrative coming from corporate America.

BMT in the Press

Jittery Wall Street has a lot Ahead to be Nervous About (1/7/2019)

As investors analyzed the last jobs report of 2018, The Associated Press turned to Ernie Cecilia, Chief Investment Officer at Bryn Mawr Trust, for his interpretation of the new data and how the markets reacted as a result.

Read the entire article at apnews.com.

Every Day is a Big Day for Stocks (1/4/2019)

Ernie Cecilia, Chief Investment Officer at Bryn Mawr Trust, spoke to Bloomberg about market volatility at the start of 2019. Ernie explained how political noise can distract investors from the healthy state of the economy and reports of earnings growth.

Read the entire article at bloomberg.com.

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