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Market Summary – February 11, 2019

For the week ending February 8

This summary is provided by BMT Wealth Management.

Economic Data: U.S. Economic Growth is Slowing Down

The U.S. economy is expected to expand in 2019 but at a slower pace relative to last year. The fading economic impact from fiscal stimulus as well as the ongoing trade negotiations between the U.S. and China are two areas of concern that the BMT Investment Team has been focused on and monitoring closely.

Last week, the U.S. service sector indicated that the U.S. economy is indeed off to a slow start.

The Institute for Supply Management's Non-Manufacturing Index (NMI®) dropped to 56.7 in January, matching the lowest level recorded in more than a year. The Index captures roughly 90% of the U.S. economy — mostly business activity related to the service sector. Although the deceleration was expected, the duration of the recent government shutdown was unexpected and most likely an extra drag on the service industries.

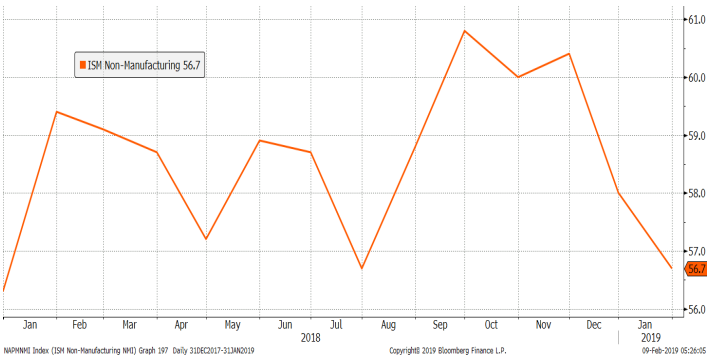
Financial Markets: S&P 500 Squeezes out a Positive Return

The S&P 500 Index ended last week with a very modest return of +0.11%. The utility sector was the best performing sector up +2.11%, followed by the information technology sector up +1.90%. Given the drop in bond yields last week, investors turned to high dividend-paying utility companies for income.

The energy sector was the worst performing sector within the S&P 500, down -2.94%. Oil prices dropped roughly -4.50% last week, a negative for energy companies.

Overseas, the international equity markets didn't fare as well relative to the U.S. The MSCI EAFE Index, representing developed international countries, and the MSCI Emerging Markets Index were down -1.38% and -1.34%, respectively. Despite the losses, both indices are still off to a very good start in 2019, up +5.08% and +7.32%.

Institute for Supply Management Non-Manufacturing Index
(Period 12/31/2017 – 1/31/2019)



Source: Bloomberg Finance, L.P.

MSCI EAFE and MSCI Emerging Market Index
(Period 12/31/2018 – 2/8/2019)

Source: Bloomberg Finance, L.P.

Financial Markets: Bond Yields Trending Lower

U.S. Treasury yields dropped across the yield curve with the 2-year U.S. Treasury yield and the 10-year U.S. Treasury yield ending the week at +2.47% and +2.64%, respectively. Investors favored the safe haven asset last week as U.S. economic growth showed signs of slowing while trade discussions between the U.S. and China continued.

Credit spreads widened modestly last week; although, returns for investment-grade, high-yield and emerging-debt sectors remain in positive territory this year. Investor risk aversion has subsided across multiple risk assets relative to the final quarter of last year. In 2019, fixed income investors have benefited from a continued drop in bond yields as well as increased investor demand for higher yielding fixed income sectors.

Looking Ahead

At the last Federal Open Market Committee (FOMC) meeting, the Federal Reserve made it clear that inflation will be a big factor when determining the timing of the next (if any) rate hike down the road. This week, investors will get their first look at January 2019 inflation data. The Consumer Price Index will be released on Wednesday, February 13 and the Produce Price Index will be released the following day.

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