



Market Summary – March 12, 2018

For the week ending March 9

This summary is provided by BMT Wealth Management.

Fears of Inflation Held in Check

Equity markets rallied sharply (+1.7%) after the February Non-Farm Payroll report was released on Friday (Mar. 9) by the U.S. Bureau of Labor Statistics. By contrast, the previous employment report, which was released in early February amid a market correction, prompted a negative reaction by the stock market.

Job gains were robust, as total non-farm payroll rose by 313,000 jobs. Most sectors of the economy experienced solid job gains, which is an encouraging sign. The construction and manufacturing industries were positive outliers in the report and collectively added more than 90,000 jobs.

Given the latest upward revisions in previous employment reports, the U.S. economy has added more than 240,000 jobs on average over the past three months.

What caught the market's attention late last week was a softening in the hourly earnings figure. Wages rose 2.6% on an annualized basis. The level of wage gains eased concerns about mounting inflationary pressures, which can negatively impact equity markets as rising prices hamper company profit margins.

A combination of rising corporate profits, solid economic growth, and low-to-moderate levels of inflation can be supportive of higher equity valuations, which are modestly above 10- and 20-year averages.

Equities Approach All-Time Highs

A confluence of positive news pushed equities near the all-time highs we saw in January of this year. Last week, U.S. stocks, as measured by the S&P 500 Index, surged 3.59%. The strong gains were dispersed across a wide assortment of sectors and industries.

Fears of a trade war dissipated, at least for the moment, as news circulated that the Trump administration seems to be softening its stance regarding steel and aluminum tariffs for NAFTA trading partners and negotiations are taking place.

The rise in international equity markets was not quite as impressive, but it was broad-based, with the MSCI EAFE Index advancing 1.87% and the MSCI Emerging Markets Index appreciating 2.17%. Election results in Italy and news surrounding Japan's potential exit from accommodative monetary policy limited gains in overseas markets.

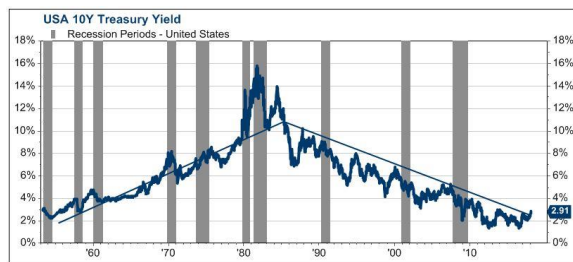
Bond Yields Stall

Fixed income markets were quiet this past week. The yield on the 10-year U.S. Treasury remained within a tight range all week and only inched up two basis points (0.02%) after the Non-Farm Payroll report was released on Friday.

The question remains whether bond yields are on the brink of breaking out of a long-term downward trend. As the following chart demonstrates, interest-rate cycles can last for a

long period of time. While it is too early to tell, it is possible that the secular decline in interest rates since the early 1980s is on the verge of reaching an inflection point.

**10-Year U.S. Treasury Bond Yields
5/1/1953 – 2/27/2018**



Source: FactSet, Inc.

Our Views

Equities have nearly retraced the all-time highs experienced earlier this year, and positive investor sentiment has reemerged, at least for the time being. While we could see additional bouts of market volatility as the year progresses, the economy and corporate profits seem to be on solid footing.

The events of last week did not prompt any changes in our market outlook or how we are positioning client portfolios. We continue to believe that limiting duration (interest rate risk) is prudent, given the likelihood that interest rates will drift higher. For individual equities, we will continue to emphasize stocks with strong fundamentals across the market capitalization spectrum.

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