



Market Summary – May 15, 2017

For the week ending May 12

This summary is provided by BMT Wealth Management.

Earnings, Retail Stocks, and News from Across the Pond

The news cycle is rife with domestic and geopolitical events, along with the most important long-term determinant of equity prices – earnings reports.

According to FactSet, Inc., 91% of S&P 500 companies have reported first quarter earnings through Friday (May 12). The blended growth rate stands at 13.6%. If this level is sustained for the remainder of the reporting period, it will be the fastest quarterly growth since the 16.7% blended earnings growth registered in the second quarter of 2011. At the top line (revenues), the blended growth rate is running at 7.8%.

Despite the positive profit reports, not all industries are enjoying good fortune. Share prices of department store stocks and traditional retailers have been under selling pressure, as the shift from “bricks to clicks” intensifies.

Consumer spending remains firm, as does consumer sentiment. Friday’s release of the University of Michigan’s Consumer Sentiment Index at 97.7 beat consensus forecasts, rising further from a strong late-April reading. Non-store retailers have been garnering a larger share of overall sales, reflecting the continued shift in consumer spending habits as well as advancements in technology and delivery times and methods.

European-based equities are still basking in the afterglow of the defeat of pro-“Frexit” and populist presidential candidate Marine Le Pen in the final round of the French elections on May 7. The FTSE 100 hit a record high on Friday.

On the data front, Germany reported GDP growth of +0.6% in the first quarter, up from +0.4% in the fourth quarter of 2016. The improvement in economic activity and strong export business activity are having the effect of shifting sentiment away from populist party candidates in that key Euro Area country.

However, challenges remain across Europe on both the economic and political fronts, as attention will turn to the elections in Italy next month.

Amid the broad news, the S&P 500 declined about 0.3% for the week last week, and the ten-year U.S. Treasury bond yield declined two basis points (-0.02%) to yield 2.33% at the week’s close. The weaker-than-expected consumer price data released on Friday supported bond prices.

Oil Price Volatility and OPEC

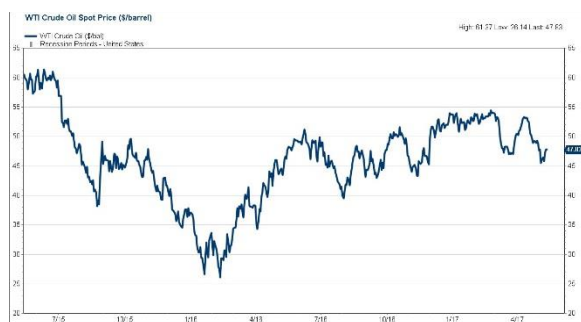
Oil prices have been volatile, as supply continues to outstrip demand on a global basis.

Prices firmed coming out of the OPEC meeting in November last year, based on an agreement to curtail production. West Texas Intermediate (WTI) touched \$43/barrel on the spot market in mid-November, before rising to the \$55 per barrel area in late February.

After February, the price of oil declined to approximately \$45/barrel (considered a key technical marker), before rising again to close out last week at \$47.83/barrel.

This morning (May 15), oil prices are higher by 2.5% on the announcement by Saudi Arabia and Russia that they plan to back extending production cuts until March 2018 at the next OPEC meeting on May 25 in Vienna.

WTI Crude Oil Spot Price (\$/barrel):
Two Years Ended 5/12/2017



Source: FactSet, Inc.

The increase in global oil supply has been exacerbated by strong U.S. oil production and several non-OPEC producers ramping up production. Excess supply is sitting in oil tankers in locations across the globe.

If production cuts are extended until March 2018, as supported by the Saudis and Russians, it

would be longer than the six-month extension that the commodity and financial markets had come to expect. In our opinion, the agreement, if enacted at the upcoming OPEC meeting, will push prices higher over the short term, but we see supply keeping a lid on prices over the long term.

Our View

At the index level, we hold the view that domestic equity valuations fully reflect earnings prospects on a 12-month going-forward basis. Corporate tax and regulatory reform measures, which, in our opinion, should lead to higher levels of corporate profit growth, are necessary to support current valuation levels.

International equity markets, both developed and emerging, have moved to the upside this year, and we see relative value on a selective basis.

In the fixed income markets, we continue to believe that it would be prudent to remain defensive as to duration risk at this stage of the economic cycle. Our focus continues to be on short and intermediate maturities, and corporate and municipal issuers with strong credit features.

BMT in the Press

Bryn Mawr Trust professionals are regularly sought after by the media for their insights on financial matters. The following are some recent highlights.

Nasdaq and S&P Hit Record Highs as Market Volatility Hits Lowest since December 2006 (5/9/2017)

Following France's historic presidential election, CNBC.com sought expert analysis from Ernie Cecilia, Chief Investment Officer at BMT, about how this event impacted markets. Ernie explained that the team closely monitors transpiring geopolitical events on behalf of its clients, as they can impact market behavior.

'Fear Index' at Its Lowest Level since 1993 (5/9/2017)

Ernie Cecilia spoke with [Marketplace](#) about why the CBOE Volatility Index (VIX) dropped to low levels that haven't been seen in almost 25 years. Ernie observed that the VIX, which measures expected volatility in the market, has declined as corporate earnings releases, recently released economic data reports (such as employment), and outcomes (such as the French elections) have come in line with general expectations.

Investors Split on What Ultra-Low VIX Means for Markets (5/9/2017)

[FoxBusiness.com](#) called upon Ernie Cecilia to explain why the CBOE Volatility Index (VIX) hit its lowest level since 1993. Although the VIX indicates that we likely won't experience volatility in the near future, Ernie stressed that it's important to follow a long-term investment strategy and be prepared for market volatility.

What to Look for in a Financial Advisor (5/10/2017)

[DailyWorth](#) asked T. Michelle Jones, CFP, Vice President and Portfolio Manager at BMT, about the top qualities investors should look for when choosing a financial advisor. Michelle underscored the importance of seeking an advisor who has professional credentials, a strong personal relationship with clients, and the ability to deliver a comprehensive financial plan.

Here's One More Thing Successful Women Must Do (5/10/2017)

Ellen Jordan, CFP, Senior Vice President and Women's Wealth Advisor at BMT, authored an article for [MarketWatch](#) about how to help female breadwinners become more engaged in managing their wealth. Ellen explained how career-oriented women can overcome challenges and feel more responsible for their money while raising a family.

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BMT Wealth Management
Harry R. Madeira, Jr. ("Gary") | Executive Vice President
610.581.4791 | gmadeira@bmtc.com
bmtc.com/wealth