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Market Summary – July 30, 2018

For the week ending July 27

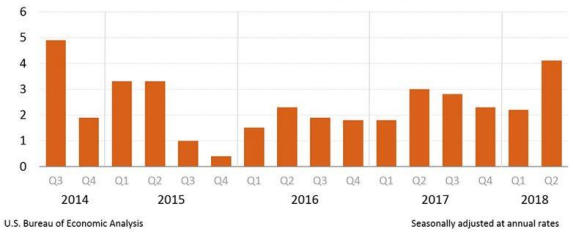
This summary is provided by BMT Wealth Management.

Macroeconomic Overview: Data Points to Continued Acceleration, But Lags Expectations

Several key economic reports pertaining to housing, durable goods, and consumer sentiment were released last week, but it was Friday's (July 27) GDP report that had the largest effect on financial markets.

According to the U.S. Bureau of Economic Analysis, second quarter 2018 real GDP rose 4.1%. As the chart below illustrates, the percentage increase in real GDP from the previous quarter was the most robust it has been since the third quarter of 2014.

Real GDP:
Percent Change from Preceding Quarter



Source: U.S. Bureau of Economic Analysis

Consumer spending, which accounts for roughly 70% of U.S. economic output, accelerated 4% for the second quarter. In addition, non-residential investment (i.e., business spending) rose 7%, and positive contributions from government spending and net exports augmented results.

The recent weakening in the housing market was captured in this past quarter's 1.1% decline in residential fixed investment, which provided a modest drag on what was otherwise a strong economic report.

While Friday's GDP report continued to support the economic acceleration narrative, U.S. markets reacted negatively. Stocks that are more closely tied to U.S. growth, such as small-cap equities, suffered the most significant declines. It is quite possible that financial markets had been anticipating a stronger growth figure, especially given the amount of fiscal stimulus (the result of tax cuts) that had been injected into the U.S. economy.

Equity Market Recap

Last week, the S&P 500 Index increased 0.61%, despite the modest selloff that occurred on Friday. Small-cap equities, as measured by the Russell 2000 Index, returned -1.96%. Nearly all the negative performance for the small-cap equity market occurred during the final trading session of the week, after the second quarter 2018 GDP report was released.

The majority of economic sectors posted positive returns last week. Industrials and Financials, which have been laggards since the beginning of 2018, were positive outliers. In addition, Energy stocks gained momentum, as oil prices continued their upward trend that started in October of last year.

Information Technology, which has been the top-performing sector over the past 12 months, was a standout underperformer. Investors reacted negatively to Facebook, Inc.'s earnings report, which, given the stock's large weight within Information Technology, caused the entire sector to finish in the red. Time will tell if this is the beginning of the unwinding of the "FAANG" trade, which has had a considerably positive influence on the U.S. equity market as a whole.

Overseas, developed international markets (MSCI EAFE Index) increased 1.35%, while emerging markets (MSCI EM Index) rose 2.15%. Foreign stocks finally received a reprieve from the recent selling pressure that resulted from the rising U.S. dollar and headlines related to global trade tensions and tariffs.

Bond Market Recap

In fixed income, the shape of the yield curve, which has garnered a lot of attention recently due to the degree of flattening that has occurred over the past few months, changed little last week. Interest rates rose across the curve, with two-year and 10-year yields finishing at 2.67% and 2.96%, respectively.

There is nothing noteworthy to report in terms of changes in credit spreads. Overall, the recent round of economic reports did little to alter the favorable outlook for corporate profits, which can materially influence the performance of credit markets.

Looking Ahead

This coming week, investors will receive data on ISM Manufacturing (August 1) and July employment (August 3), which will indicate whether recent economic momentum remains in place.

In addition, investors will have a chance to digest another round of earnings reports. Based on data provided by FactSet Research Systems Inc., this quarterly earnings season has been positive thus far, given that more than 80% of companies have beaten consensus earnings estimates.

Financial markets are entering the seasonally weak period of August through September. Barring an exogenous shock (i.e., trade war), we do not expect volatility to fall outside of the range we typically see for this time of the year.

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.

S&P 500 Erases Most of Its Losses, Fighting Off 18% Plunge in Facebook (7/26/2018)
In an article on the day's market activity, CNBC.com turned to Ernie Cecilia, Chief Investment Officer at BMT, for expert commentary on recent earnings reports. Ernie noted that high-performing companies with earnings that fall below expectations are being punished more harshly this earnings season.

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