The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

April 28, 2017

As of 04/28/2017		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	20,940.51	392.75	1.91	2.33	5.96	17.44
S&P 500	2,384.20	35.51	1.51	1.96	6.50	14.86
NASDAQ 100	5,583.53	141.48	2.60	1.08	14.80	27.95
S&P MidCap 400	1,732.76	15.10	0.88	1.70	4.35	17.91
Russell 2000	1,400.43	20.57	1.49	1.44	3.20	22.81

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.27	Euro/Dollar	1.09	1.56
5-Year	1.82	Dollar/Yen	111.46	2.16
10-Year	2.29	Sterling/Dollar	1.30	1.06
30-Year	2.96	Dollar/Cad	1.37	1.11

Source: Thomson Reuters

What Caught Our Eye This Week

The AAA consumer survey released this week found that 15% of Americans are likely to purchase an electric vehicle (EV) as their next car. While this may seem like a tepid amount, AAA contends that interest has not waned even though gas prices are down 35-40% since 2012. Driving the interest in EV is concern for the environment, desire for the latest technology and lower long-term costs. Battery life and charging infrastructure are the two main concerns causing Americans to hesitate before switching to EV. The battery is the most expensive part of the EV and can make up half of the total cost of the electric car. Battery costs are coming down rapidly and just in time. Subsidies have enabled the sector to gain traction, but will most likely come to an end next year. Unlike a traditional fossil fueled automobile, EV owners must locate charging stations, which are much less available compared to gas stations. We are just at the beginning of the infrastructure technology. While EV sales are a fraction of all car sales in the U.S., auto makers are due to release a bevy of new EVs over the next several years. Expectations for over 120 models of EVs by 2020 are not out of reach.

Economy

The economic headliner this week was Friday's report on first quarter real GDP. This was the first look at Q1 GDP, and these figures came in below expectations rising by just 0.7%. Consumer spending, the biggest part of the economy, rose 0.3%, the worst performance since 2009. Inventory investment was a drag on GDP, subtracting 0.9% from growth. Business fixed-investment data were solid with equipment spending rising by 9.1% and nonresidential structures increasing 22.1%. Government spending was also a drag declining by 1.7%, as military outlays decreased by 4.0%. There will be two more reports on first quarter GDP with the next analysis coming on May 26th. On Tuesday, we were pleased to see new home sales increase by 5.8% to 621,000 in March. These figures have increased for three consecutive months and are now up 15.6% year-over-year. There were net upward revisions of 43,000 to prior months and the median sales price increased 1.2% to $315,100. Orders for durable goods were released on Thursday and showed a third consecutive increase, rising 0.7% in March. Core capital goods, which excludes defense and aircraft, increased by 0.2% and core shipments advanced by 0.4%.

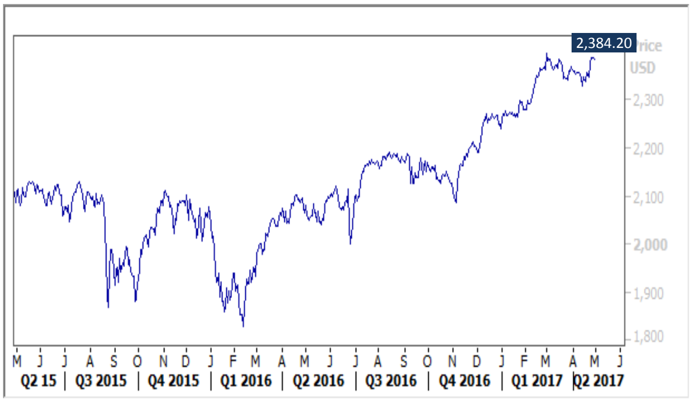
Fixed Income/Credit Market

With positive economic data releases over the past week, the U.S. Treasury curve sold off roughly 8.6 basis points (bps) at the 2-year tenor and 3.9 bps at the 10-year tenor. Although annualized GDP quarter-over-quarter (QoQ) came in slightly below expectations at 0.7% versus a survey of 1.0%, according to Bloomberg, Core PCE QoQ printed in line with the survey at 2.0%. The move in interest rates led by the front-end of the yield curve on a weekly basis has flattened the 2 to 10-year spread about 4.8 bps to 1.019. This is not surprising given the fact that the front-end of the Treasury curve is typically impacted the most during Fed tightening cycles and the positive economic data strengthens the case for an increase in interest rates at the June FOMC meeting. The current implied probability of a rate hike at the June 14th meeting is 69.7%, up from 50.2% a week prior.

Equities

Do traders and investors "sell in May and go away", or does the market continue its historic march to higher highs? Equity buyers were solidly in control, as most averages rallied sharply during the first two trading sessions of the week. The Dow Jones Industrials added over 400 points over two days and closed Tuesday just 119 points shy of its all-time high. The S&P 500 continues to flirt with its record high, and the NASDAQ Composite stands at new highs, propelled by persistent gains in giants, Amazon (23% ytd), Facebook (31% ytd), Alphabet (17% ytd) and Apple (24% ytd). By mid-week, equity markets flattened amid growing concerns about the viability of proposed healthcare and tax reform legislation. Earnings season is mid-way through, as results for financials, industrials and technology have been generally strong on both revenue and earnings and especially with respect to full year guidance, supporting the notion that investors will remain bullish.

S&P 500



Our View

It is not unusual for a barrage of headline news to grab the attention of equity investors. In the past few months, concerns about future Fed rate hikes, geopolitical tensions in Syria/North Korea, French elections and the Trump agenda have had an impact on investor sentiment. This is a legitimate reaction as any one of these events could have significant economic implications. What seems to have been underreported, however, are more fundamental factors that dictate the valuation of individual companies and the market as a whole. Currently, about 287 companies have reported their 1st Quarter results. Earnings for the group are up 15.6% with revenues advancing by 7.9% over the same period last year. Approximately 80% of the reports have beaten analyst expectations and 65% have exceeded top-line expectations. Factoring in the estimates for the companies yet to report, S&P 500 earnings growth for the quarter could be 9.7% with revenues 5.9% higher than last year. Importantly, these results are broad based with multiple sectors contributing to the uptrend. Also, this is not a one quarter phenomenon as the trajectory began in last year's 3rd Quarter and could continue over the balance of 2017. Obviously, it is necessary to incorporate both internal and external factors in any investment evaluation.

COMING UP NEXT WEEK		Est.
05/01 Personal Consumption Real MM	(Mar)	0.1%
05/01 Personal Income MM	(Mar)	0.3%
05/01 ISM Manufacturing PMI	(Apr)	56.4
05/03 ISM Non-Manufacturing PMI	(Apr)	55.8
05/04 Productivity Prelim	(Q1)	0.2%
05/05 Non-Farm Payrolls	(Apr)	185k

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