The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

April 7, 2017

As of 04/07/2017

STOCKS	Close	Wk Net Change	Wk % Change	Div Yield	YTD % Change	12 Mos % Change
DJIA	20,656.10	-7.12	-0.03	2.36	4.52	17.75
S&P 500	2,355.54	-7.18	-0.30	1.98	5.22	15.37
NASDAQ 100	5,418.37	-17.86	-0.33	1.11	11.41	21.07
S&P MidCap 400	1,706.38	-13.27	-0.77	1.70	2.76	20.31
Russell 2000	1,364.56	-21.36	-1.54	1.47	0.56	24.88

TREASURIES	Yield	FOREX	Price	Wk %Change
2-Year	1.29	Euro/Dollar	1.06	-0.59
5-Year	1.92	Dollar/Yen	111.07	-0.31
10-Year	2.38	Sterling/Dollar	1.24	-1.51
30-Year	3.01	Dollar/Cad	1.34	0.65

Source: Thomson Reuters

What Caught Our Eye This Week

Emerging markets include China, Taiwan, India, Brazil, South Africa and numerous other nations. These countries continue to be an attractive area to invest because of their strong GDP and earnings growth, improving productivity, growing middle class and attractive valuation. According to the International Monetary Fund, over the next four years, the annual GDP growth rate for emerging markets is expected to be 4.6% compared to 2.1% growth in the United States, and the differential between the two is expected to increase during this same timeframe. The World Bank expects emerging market annual labor productivity over the next four years to grow by 5.1% compared to 1.7% in the United States. Labor productivity drives standard of living increases which in turn drives the growth in the middle class. Over the next three decades, the OECD estimates that 85% of the middle class growth will come from emerging Asia and at the end of this period, 53% of the world's middle class consumption will come from just two countries: India and China. Finally, valuations in the emerging markets are quite attractive. The price to earnings ratio of emerging market stocks is 15.5x. This compares to the more fully valued 21.7x in the U.S.

Economy

The most anticipated report this week was the nonfarm payroll report, which was released on Friday. This report showed payrolls increasing by 98,000 in March, which was below the consensus forecast of 180,000. The unemployment rate declined to 4.5%, and more importantly the U-6 measure of unemployment declined to 8.9%. Average hourly earnings increased by 5 cents and are now up 2.7% year-over-year. Overall, there were negative revisions to the January and February jobs figures totaling 38,000. Examining the different employment sectors, professional and business services gained 56,000 jobs and mining added 11,000. The labor force grew by 326,000 and the labor force participation rate held steady at 63%. The number of persons employed part time for economic reasons has declined by 567,000 over the past year. Unfortunately, there was more pain for the retail sector, as 30,000 jobs were eliminated in March. In other news this week, the ISM manufacturing index declined to 57.2 in March and the forward-looking new orders index declined to 64.5. The ISM non-manufacturing index also declined dropping to 55.2, which was below consensus estimates. Finally, we were pleased to see weekly jobless claims decrease by 25,000 to 234,000 during the week ending April 1st.

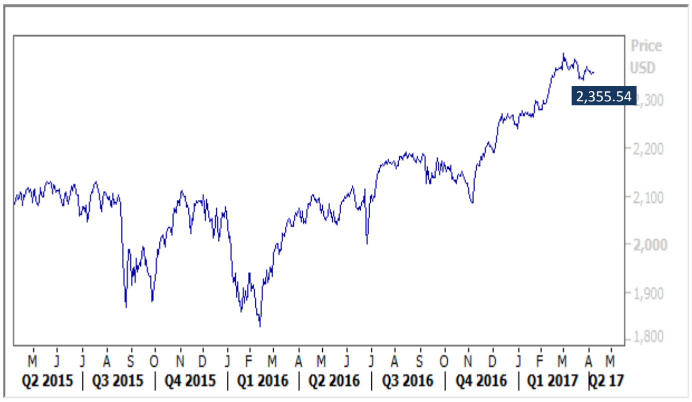
Fixed Income/Credit Market

Fixed income performance for the first quarter of 2017 was positive for the majority of sectors that we follow. Preferred equity and emerging market bonds (currency hedged) were the highest performing sectors returning 5.05% and 3.97%, respectively. The two negative performing sectors were U.S. short-term government bonds and international treasuries returning -0.06% and -0.13%, respectively. The 10-year Treasury remained range bound throughout the quarter hitting a low of 2.31% on 2/24/17 and a high of 2.63% on 3/13/17. Bonds sold off in mid-January on hawkish comments by the Fed which pointed to gradual rate increases in 2017 but by early February strong demand for safe haven assets on news out of France started driving the 10-year Treasury yield back toward the 2.35% area. Further comments from the Fed indicating a March rate hike pushed the 10-year Treasury up to 2.63% on 3/13/17. The 10-year Treasury closed March at approximately 2.39% after the Trump administration was unable to repeal and replace the Affordable Care Act.

Equities

News of a U.S. cruise missile strike coupled with a weak employment report, and comments from New York Fed President William Dudley caused equities to end the week lower. The Dow, S&P 500 and Nasdaq all finished the week in negative territory as financials, consumer discretionary and technology stocks dragged the indexes down. Financials were especially weak as the yield curve continued to flatten creating concern over net-interest margins. Consumer staples and utilities stocks finished the week higher as investor sentiment shifted to risk-off sectors. The energy sector was the best performer and oil posted its second consecutive weekly gain as inventory levels stabilized. Market participants will look for earnings growth as a reason to resume buying, while consumer confidence remains high and hopes for pro-business policies continue.

S&P 500



Our View

Despite a bevy of interesting and meaningful news items this week, financial markets were generally quiet. Equities drifted slightly lower with some volatility around the release of the minutes from the Federal Reserve's March meeting. Insight into the current thinking of Fed officials was arguably the most significant news event. FOMC minutes indicated that a number of Fed officials believe the process of normalizing the Fed's $4.5 trillion balance sheet should begin later this year. After the financial crisis the Fed aggressively purchased MBS and Treasuries to provide support for the recovery, causing their balance sheet to dramatically expand. Whenever they do begin unwinding the unusual stimulus, the Fed will likely take up to five years to reduce the balance sheet down to a level they feel is optimal. An elongated approach will minimize the impact on the long end of the yield curve. As global growth trends slightly higher, the Fed should have room to continue to gradually increase rates at the short end of the curve. Given the overall tepid economic growth and the approach we anticipate the Fed will pursue, we expect the yield curve to moderately flatten as the year progresses.

COMING UP NEXT WEEK		Est.
04/11 JOLTS Job Openings	(Feb)	5.626mln
04/13 PPI Final Demand YY	(Mar)	2.4%
04/13 Initial Jobless Claims	w/e	245k
04/13 U Mich Sentiment Prelim	(Mar)	97
04/14 CPI MM, SA	(Mar)	0.1%
04/14 Retail Sales MM	(Mar)	0.1%