The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

January 19, 2018

As of 01/19/2018		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	26,071.72	268.53	1.04	2.01	5.47	32.13
S&P 500	2,810.30	24.06	0.86	1.80	5.09	24.12
NASDAQ 100	6,834.33	75.79	1.12	0.98	6.85	35.30
S&P MidCap 400	1,979.20	13.23	0.67	1.48	4.14	18.70
Russell 2000	1,597.63	5.66	0.36	1.29	3.97	18.63

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	2.06	Euro/Dollar	1.22	0.25
5-Year	2.45	Dollar/Yen	110.76	-0.26
10-Year	2.66	Sterling/Dollar	1.39	0.91
30-Year	2.93	Dollar/Cad	1.25	0.29

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

After a lackluster 2016, the initial public offering (IPO) market bounced back in 2017. According to Renaissance Capital, 160 IPOs were priced last year, an increase of 52% over 2016. The total proceeds raised grew by 89% to $35.5 billion. As 2018 begins, the focus is on the expected new offerings. There are several hundred startups valued at over $1 billion that remained private as market indices had a very strong 2017. Interestingly, last year, the average IPO rose 21% vs a 19% price gain for the S&P 500. The expectations for higher corporate earnings and lower corporate taxes are benefiting the stock market and should drive the IPO momentum. A notable name that is expected to go public soon, albeit in a very unusual way, is Spotify AB, the music streaming company. The company is seeking to go public through a 'direct listing' which means there is no road show, no quiet period, and no coordinated stock sale. The company has positive cash flow and it doesn't need to raise money in a public offering. If Spotify AB shares transition to the public market on their own, it could create a new model for other companies to raise cash in the private market and transition to trading in the public market without the customary help from investment bankers.

Economy

The economic calendar was a bit light this week, but overall the data continues to be positive. On Wednesday, we received industrial production data for December and these figures advanced by 0.9% and 3.6% for all of 2017. This was the largest calendar gain since 2010. Manufacturing data did disappoint, but also had an impressive 2017, rising 7.0%. Auto manufacturing was up only 0.4% in the past year, but non-auto manufacturing increased by 2.6%. Finally, capacity utilization ticked up to 77.9% and utility output for December increased by 5.7%. Housing starts figures were released on Thursday and showed a decline of 8.2% to 1.192 million units at an annual rate. These figures were below consensus and for all of 2017 starts were down 6.0%. The good news is that over the past 12 months single family starts are up 3.5%. Single family permits increased 1.8% in December and finished the year up 6.1%. The transition to single family from multi-family is very positive for the economy, as each single family home contributes to GDP about twice the amount of a multi-family unit. Weekly jobless claims figures were also reported on Thursday and these numbers declined by 41,000 to 220,000 during the week ending January 13th. The four-week moving average is now at 245,000.

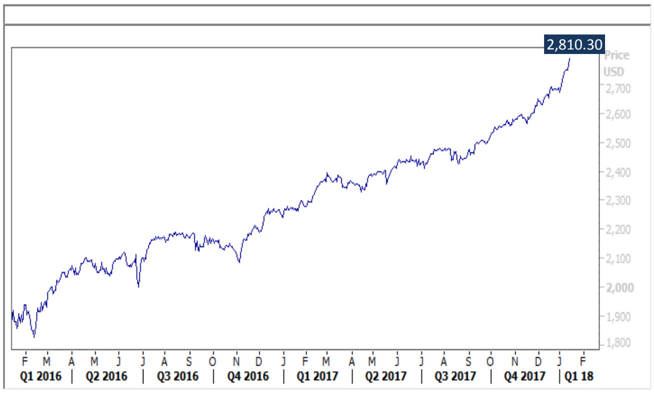
Fixed Income/Credit Market

The bond market selloff that opened 2018 has extended through the third week of trading. The 10-year U.S. Treasury yield increased an additional 10.5 basis points (bps) week-over-week to close Friday at approximately 2.65%. The move is the highest level for the 10-year Treasury since it closed on March 13, 2017 at roughly 2.63%. Since the beginning of 2018, the 10-year benchmark has increased about 24.8 bps which has been supported by consumer confidence, higher inflation expectations, and the possibility of further monetary tightening. The implied probability of rate hike at the Fed's March 2018 meeting is currently 88.2%. According to Bloomberg, one year ago the forward curve was forecasting the 10-year Treasury to be approximately 2.76%, and while we are still shy of that level by 11 bps, the benchmark yield has made a significant increase after touching a one-year low of 2.04% on September 7, 2017.

Equities

Equities hit all time new highs on Wednesday, following the Martin Luther King Jr. holiday on Monday. Approximately 11% of the S&P 500 Index's constituents have reported fourth quarter earnings with 79% beating estimates, 11% reporting in line with consensus and 9% missing expectations. A majority of companies that released their quarterly results, approximately 87%, reported better than expected revenue. This week's two leading sectors were consumer staples and healthcare advancing 2.37% and 1.86%, respectively. Investors continue to favor growth sectors as the Russell 1000 Growth Index outperformed the Russell 1000 Value Index by 61 basis points. This week's lagging sectors were energy and industrials declining 1.29% and 0.88%, respectively. Energy's poor performance for the week is reflective of the price of WTI crude oil falling from a high of approximately $64.30 per barrel and ending the week closer to $63.38 per barrel, a 1.45% decline. Earnings expectations for the S&P 500 Index continue to progress upward according to Bloomberg, reaching $152.86 compared to last week's $151.45, a 93-basis point increase week-over-week sending domestic equity prices higher.

S&P 500



Our View

A remarkable element of financial markets over the last couple of years has been the lack of volatility. The most often cited measure of equity market volatility is the CBOE Volatility Index which has been abnormally placid since the beginning of 2017. In our view, two primary factors have led to the lack of volatility. First, financial market conditions have been stable for many years, so the expectations of market participants have been relatively consistent. Market volatility is caused when investor expectations change. The economy has been stubbornly stuck at two percent GDP growth since the Great Recession ended. Inflation has remained modestly below the Fed's target, and interest rates have been extremely low. Second, global central banks have continued to provide new liquidity. Investors have become conditioned to use any weakness as a buying opportunity. The factors that have dampened market volatility are unlikely to persist through 2018. U.S. GDP growth seems to have accelerated to approximately 3% and implied inflation expectations are beginning to increase. Interest rates have recently lifted to reflect better economic growth. Central banks are likely to guide markets to anticipate a reduction of accommodation in 2019. These conditions, coupled with elevated equity valuations, lead us to expect equity prices to be more active as 2018 unfolds.

COMING UP NEXT WEEK NEW		Est.
01/24 Markit Mfg PMI Flash	(Jan)	55.1
01/26 Durable Goods	(Dec)	0.9%
01/26 GDP Advance	(Q4)	2.9%

For more information about our products: http://pgbank.com