



As of 09/15/2017

| | Close | Wk | Wk | Div Yield | YTD | 12 Mos |
|-------------------|-----------|-----------------|----------|-----------|----------|------------|
| | | Net Change | % Change | | % Change | % Change |
| STOCKS | | | | | | |
| DJIA | 22,268.34 | 470.55 | 2.16 | 2.30 | 12.68 | 22.27 |
| S&P 500 | 2,500.23 | 38.80 | 1.58 | 1.99 | 11.65 | 16.41 |
| NASDAQ 100 | 5,988.00 | 74.63 | 1.26 | 1.10 | 23.12 | 24.24 |
| S&P MidCap 400 | 1,753.91 | 34.82 | 2.03 | 1.60 | 5.62 | 14.73 |
| Russell 2000 | 1,431.71 | 32.28 | 2.31 | 1.41 | 5.46 | 16.65 |
| TREASURIES | Yield | FOREX | | Price | | Wk %Change |
| 2-Year | 1.38 | Euro/Dollar | | 1.19 | | -0.75 |
| 5-Year | 1.80 | Dollar/Yen | | 110.87 | | 2.79 |
| 10-Year | 2.20 | Sterling/Dollar | | 1.36 | | 2.93 |
| 30-Year | 2.77 | Dollar/Cad | | 1.22 | | 0.24 |

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

Bitcoin, the \$53 billion unregulated, virtual cryptocurrency (digital currency) has declined by almost 30% during the last two weeks. Many other cryptocurrencies have declined considerably more. These declines are the result of two actions on the part of the Chinese government. 1) On 9/4/17, the Chinese government declared initial coin offerings (ICOs) illegal. ICOs are similar to crowdfunding. In an ICO, a business issues virtual coins that speculators can buy with digital currency such as bitcoin, and the virtual coins can be used in the future to buy a good or service that the business will one day produce. Since the beginning of the year, ICOs have raised approximately \$1.5 billion and the viability of the underlying business prospects are dubious at best. Most of the frenzied ICO activity has been in China, however, there has been global participation in these highly speculative ventures. 2) On 9/8/17, it was reported that the Chinese government was drafting a directive that will shut down the electronic bitcoin exchanges in its country. This is China's attempt to cease the growing flight of capital out of the country through bitcoin transactions. Although government intervention has reduced its market share, in January of this year, approximately 90% of all bitcoin transactions took place on exchanges in China.

Economy

This week's economic releases came ahead of the FOMC's two-day meeting next week. On Tuesday, the JOLTS (Job Openings and Labor Turnover Survey) report showed an increase in job openings of 54,000 to a record 6.17 million in July. This number came in well above the 6.0 million consensus forecast. The "quits" rate increased to 2.2% from the prior month, and the net employment gain over the past 12 months is now 2.1 million. Investors were particularly focused on the mid-week release of producer and consumer inflation measurements. In August, the Producer Price Index's headline and core numbers came in just below expectations increasing by 0.2% and 0.1%, respectively. Although the numbers were below expectations, year-over-year the figures are at or above the Fed's 2% inflation target with headline PPI increasing by 2.4% and core PPI increasing by 2.0%. The headline and core Consumer Price Index numbers increased last month by 0.4% and 0.2%, respectively. Year-over-year, headline prices are up 1.9% and core prices are up 1.7%, both of which are below the Fed's inflation target. Finally, on Friday, retail sales unexpectedly fell 0.2% in August which was likely impacted by Hurricane Harvey. The control category, which excludes automobiles, gasoline, building material and food services, also fell 0.2% in July.

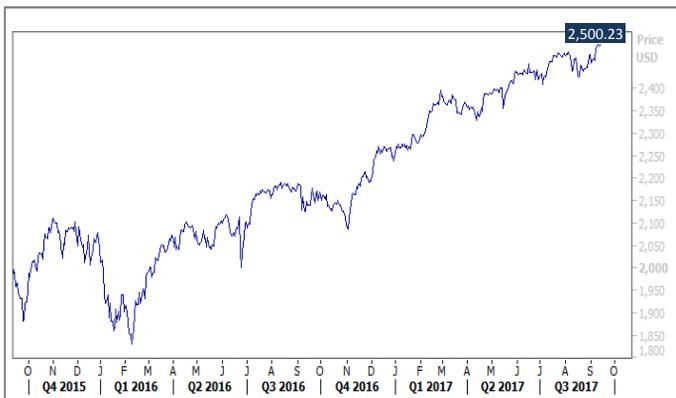
Fixed Income/Credit Market

The 10-year U.S. Treasury yield rebounded this week increasing approximately 15 basis points (bps) to close the week at roughly 2.20%. Benchmark yields across the Treasury curve increased approximately 9.7 bps to 16.9 bps week-over-week. The 5-year tenor cheapened the most; however, using the 2-5-10 U.S. Treasury butterfly spread as an indicator, the 5-year part of the Treasury curve remains expensive. The 2-5-10 spread is currently trading at 2.8 bps which is roughly 3.3 bps more expensive than its 6-month average and 20.3 bps more expensive than its 6-month high. Overnight, North Korea fired another missile over Japan and a bomb exploded on a commuter train in London in a presumed act of terrorism. However, the markets seem to have become desensitized to these types of headlines. On Friday, the U.S. Treasury curve widened with the 10-year gaining about 1.4 bps to close the week around 2.20%.

Equities

Investors had renewed interest in risk assets this week as the Dow Jones Industrial Average posted its biggest one-day rally on Monday since March after Hurricane Irma was weaker than expected. The Dow gained 2.16% on the week as positive investor sentiment lifted the index to new highs as the week progressed. The financial sector led the rally, as insurance and reinsurance stocks were especially strong. Estimated casualty losses in Florida are likely to be less than originally feared. Energy shares that have badly underperformed this year also significantly outperformed. The only sector to experience a loss this week was the utilities sector declining by 1.11%. To cap off a strong week in the equities market, the S&P 500 hit a record high breaking the 2,500 mark.

S&P 500



Our View

Inflation reports (August CPI) this week gave investors an indication that the Federal Reserve was correct in its assessment that softening inflation gauges in the second quarter were transitory. After an initial boost in inflation early in 2017 due to a rebound in energy prices, pricing measures consistently came in below estimates which lowered investors' anticipation of additional rate hikes this year. Fed funds futures are suggesting that another rate hike in December is a real possibility. Regardless of additional rate increases, we expect the Fed to announce the reduction of its \$4.2 trillion balance sheet at their meeting next week. We also envision other central banks to begin moving in a less accommodative direction. On Thursday, the Bank of England signaled its intention to raise rates soon to restrain accelerating inflation pressure in the United Kingdom. The Eurozone economy is growing at its fastest rate since 2007 and suggests less need for the ECB's QE program expanding at €60 billion per month rate. By early 2018, we could have three major central banks becoming more restrictive with their monetary policy.

| COMING UP NEXT WEEK NEW | | Est. |
|--------------------------------|---------------------------|--------------|
| 09/19 | Current Account | (Q2) -116.0B |
| 09/19 | Housing Starts Number MM | (Aug) 1.180M |
| 09/19 | Import Prices MM | (Aug) 0.3% |
| 09/20 | Fed Funds Target Rate | N/A 1.125% |
| 09/21 | Philly Fed Business Index | (Sep) 18.0 |
| 09/22 | Markit Mfg PMI Flash | (Sep) 53.2 |

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