The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

September 8, 2017

As of 09/08/2017		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	21,797.79	-189.77	-0.86	2.35	10.30	17.95
S&P 500	2,461.43	-15.12	-0.61	2.01	9.95	12.85
NASDAQ 100	5,913.37	-74.53	-1.24	1.11	21.58	23.09
S&P MidCap 400	1,719.09	-18.70	-1.08	1.64	3.52	9.20
Russell 2000	1,399.43	-14.14	-1.00	1.44	3.12	11.21

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.26	Euro/Dollar	1.20	1.42
5-Year	1.63	Dollar/Yen	107.82	-2.23
10-Year	2.05	Sterling/Dollar	1.32	1.89
30-Year	2.67	Dollar/Cad	1.21	-2.01

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

Hurricane Harvey impacted oil refineries and drove gas prices to a two-year high, but it also had a significant impact on agriculture. The 54 counties in the Texas disaster zone had at least 1.2 million beef cows. Texas is the top state in the nation for beef production. Texas also produces 25% of the country's cotton crop, more than any other state. Cotton farms tend to be along the Gulf Coast. As Florida braces for the next storm, Hurricane Irma could have a more devastating impact on agriculture, especially sugar cane and citrus. According to the U.S. Department of Agriculture, Florida sugar cane accounts for nearly a quarter of the sugar produced in the U.S., and it is set to be harvested on October 1st. Sugar cane is used as a raw material in the food industry or fermented to produce ethanol. Florida is also the biggest producer (70%) of oranges in the country, which is a crop valued at $1.3 billion. Florida has a huge influence on grocery stores as the number two U.S. produce grower behind California. If Hurricane Irma continues up the coast (hitting Georgia, South Carolina and North Carolina), it will continue to impact livestock, grain and cotton. Extensive damage to croplands could have a widespread effect on U.S. food prices.

Economy

The economic calendar was a bit light this week, but on Thursday there was some favorable news regarding nonfarm productivity. Nonfarm productivity was revised up from 0.9% to 1.5% in the second quarter. Overall productivity growth is soft with gains of only 1.3% year-over-year. Weak productivity has had a significant impact on workers' wages over the last ten years. Productivity growth averaged 1.2% a year from 2007 through 2016. On Wednesday, we were pleased to see the ISM non-manufacturing index rise to 55.3 in August with 15 of 18 industries reporting growth. The new orders activity index rose to 57.1 and the business activity index advanced to 57.5. Over the last year, the ISM nonmanufacturing index has posted impressive figures with the headline composite number increasing from 51.7 to today's level of 55.3. On Thursday, initial jobless claims surged by 62,000 to 298,000 during the week ending September 2nd. Hurricane Harvey severely impacted the claims data and has disrupted the labor market. Ironically, the streak of jobless claims being less than 300,000 is still intact at 131 consecutive weeks, a streak we have not witnessed since the early 1970s.

Fixed Income/Credit Market

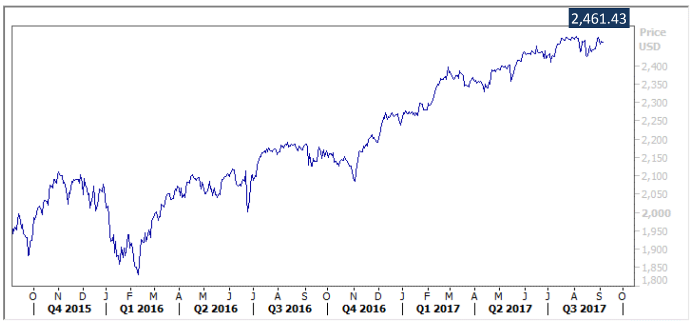
The first week of September saw benchmark U.S. Treasury (UST) yields compress anywhere from approximately 8 basis points (bps) to 11.2 bps. Natural disasters in the U.S., further threats of a nuclear armed North Korea, and conflicting statements from the Fed in regard to monetary policy had investors flocking towards safe-haven assets which contributed to a flatter yield curve. The 2-year and 10-year UST spread decreased an additional 3.3 bps this week to close out the week at 79 bps. Despite the yield compressions, the 10-year Treasury remains attractive when compared to other global 10-year bonds.

Country	Rate	Basis point spread vs U.S.
U.S.	2.054	
U.K.	0.987	-106.7
France	0.611	-144.3
Germany	0.308	-174.6
Italy	1.948	-10.6
Spain	1.516	-53.8
Switzerland	-0.218	-227.2
Japan	-0.013	-206.7

Equities

Trading this holiday shortened week was choppy for equities as the markets dropped by 0.61% (S&P 500). Growing fears about North Korea's military capabilities caused stocks to open sharply lower on Tuesday after North Korea conducted another nuclear test. Hurricane Irma, a major category five hurricane that ravaged the Caribbean islands and caused evacuations in Florida, created additional concern for investors. Historically natural disasters, while causing short term pain to earnings and economic growth, tend to have a relatively short-term economic and financial market impact. Midweek, an agreement between President Trump and Democratic leaders regarding the debt ceiling issue allowed equities to recover briefly. However, release of the Fed's Beige Book unfortunately indicates weakening signs for the domestic economy that caused financial stocks to retreat. Additionally, a couple of Dow bellwethers also experienced sharp losses due to company specific issues that pressured major averages lower.

S&P 500



Our View

With European economic momentum gaining strength in 2017, the ECB had an opportunity this week to address the future of its quantitative easing program, but decided to delay the announcement until it meets again in October. The ECB left rates unchanged and increased its GDP growth forecast for 2017 to 2.2% which, if achieved, would be the fastest rate of growth in 10 years. The recovery in Europe is largely attributable to the extraordinary accommodative monetary policy that the ECB has instituted over the past 2.5 years, which has been comprised of negative interest rates along with asset purchases of over $2 trillion euros. Even with the aforementioned accommodation, inflation in Europe has been elusive and is not expected to hit the 2% target through 2019. The recent appreciation of the euro currency has been an additional headwind for inflation and has reduced recent inflation forecasts by 10 basis points over the next 2 years. The ECB is going to have to gradually tighten monetary policy in the near term by reducing the pace of its asset purchases. The markets will be keenly focused on the October ECB meeting with respect to any hints at the shape of the quantitative easing program for 2018.

COMING UP NEXT WEEK		Est.
09/13 PPI Final Demand	(Aug)	0.3%
09/13 PPUI exFood/Energy	(Aug)	0.2%
09/14 Core CPI MM, SA	(Aug)	0.2%
09/14 CPI MM, SA	(Aug)	0.3%
09/15 NY Fed Manufacturing	(Sep)	20.00
09/15 Retail Sales, MM	(Aug)	0.1%
09/15 Industrial Output, MM	(Aug)	0.2%
09/15 U Mich Sentiment Prelim	(Sep)	95.1

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