The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

July 21, 2017

As of 07/21/2017		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	21,580.07	-57.67	-0.27	2.31	9.20	16.54
S&P 500	2,472.54	13.27	0.54	1.98	10.42	14.18
NASDAQ 100	5,921.53	83.44	1.43	1.09	21.75	27.43
S&P MidCap 400	1,773.92	8.60	0.49	1.70	6.83	15.04
Russell 2000	1,435.84	7.02	0.49	1.40	5.79	19.25

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.34	Euro/Dollar	1.17	1.67
5-Year	1.80	Dollar/Yen	111.12	-1.28
10-Year	2.24	Sterling/Dollar	1.30	-0.82
30-Year	2.81	Dollar/Cad	1.25	-0.86

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

A tale of two currencies: a strong Euro and a weak U.S. dollar. The Euro/USD exchange rate hit a two-year high of 1.167, while the U.S. dollar index (value of U.S. dollar relative to a basket of currencies) hit 94.03, a 12-month low. Year to date, the Euro/USD is up about 11% and the U.S. dollar index is down 7.89%. This week the European Central Bank left the ECB's bond purchases unchanged (quantitative easing) and ECB president Mario Draghi made fairly dovish comments, which sent the Euro to its biggest single day gain this year. Meanwhile, the U.S. dollar continued its weakness as Fed rate hike assumptions are pushed further out and economic uncertainty in Europe recedes. The silver lining is that a weaker U.S. dollar helps U.S. multinational companies increase market share and/or operating margins which translates into stronger earnings and overall profitability. Additionally, economic conditions are improving in Europe and Emerging Market economies are growing faster than our domestic economy, so multinationals should benefit from both the dollar weakness and geographic diversity.

Economy

The economic calendar was a bit light this week, but the best news came on Wednesday with the release of monthly housing starts. Housing starts increased 8.3% in June to a 1.215 million annual rate. These figures came in above expectations and housing starts are now up 2.1% year-over-year. Most importantly, single family starts increased 6.3% in June and have now advanced 10.3% year-over-year. Over the past year, there has been a shift toward single family (versus multifamily), which is a positive sign for the economy because of the significant multiplier effect associated with single family homes. Also, in this report, housing permits were strong rising by 7.4%, and single family permits were impressive increasing by 4.1%. In other news this week the Philadelphia Fed manufacturing survey declined from 27.6 in June to 19.5 in July. Most alarming was the forward looking new orders index which declined sharply from 28.5 to 2.1. On Thursday we were pleased to see weekly jobless claims decrease by 15,000 to 233,000 during the week ending July 15th. The four-week moving average remained at 246,000. Finally, we were glad to see the Conference Board Leading Economic Index increase in June by 0.6% to 127.8. These figures follow similar advances in April and May.

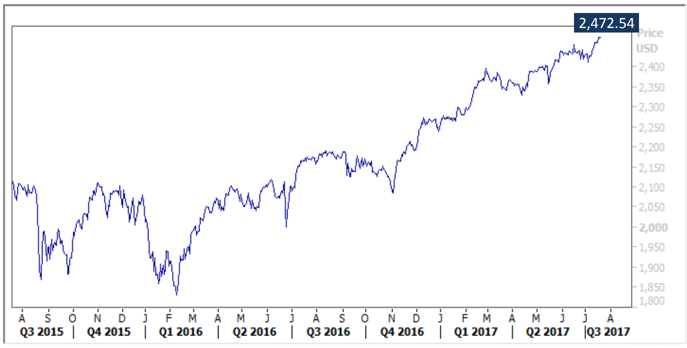
Fixed Income/Credit Market

Week-over-week benchmark interest rates across the U.S. Treasury curve compressed anywhere from 1.1 basis point (bps) to 11 bps. In particular, the 2-year and 10-year tenors decreased approximately 1.5 bps and 9.4 bps, respectively, which flattened the 2-year and 10-year spread roughly 8 bps to 90 bps. Early in the week, the move lower in yields was precipitated by news that the Senate could not garner enough votes to move forward with the repealing and the replacement of Obamacare. The reaction in the markets signaled that participants may have lost confidence in the likelihood of President Trump's pro-growth policies fully materializing. Later in the week, yields were driven lower with the ECB's reluctance to end quantitative easing in Europe. Furthermore, the U.S. 10-year TIPS (Treasury Inflation-Protected Securities) auction attracted substantially less demand than the previous auction. The U.S. 10-year breakeven is approximately 1.76%, 32 bps lower than its year-to-date high of roughly 2.08% on January 26. The 10-year U.S. Treasury closed the week at 2.24%.

Equities

Last week was a relatively quiet week for economic releases, so second quarter earnings reports dominated the news. With slightly less than 100 companies in the S&P 500 having reported, total earnings are up over 10.3% from the same period last year on 4.7% revenue growth according to Thomson Reuters. Over 75% of companies are beating EPS estimates. The positive tone for earnings helped lift equities to new highs and their third consecutive week of gains (S&P 500). There was some profit taking on Friday as U.S. equities were negatively impacted by a selloff in European shares due to the strength in the Euro. Large U.S. banks had the spotlight with their announcements this week. Despite generally positive results, many bank stocks traded down after their earnings releases. Industrials were also laggards as a number of high profile companies issued mixed forward guidance. Growth sectors like technology and consumer discretion were leaders, as shares were supported by lower rates.

S&P 500



Our View

Complacency reigns. Implied volatility of both equities and bonds are at new lows. Financial markets are clearly unconcerned regarding the potential for a meaningful shift in economic fortunes. The markets seem to be predicting continued modest economic growth, low inflation and benign central banks that will remain supportive of markets. The 5-year real yield on TIPS (Treasure Inflation Protected Securities) is only at 0.15%, indicating the market does not expect a significant pick up in either growth or inflation over investors' typical investment horizon. Additionally, there is almost $12 trillion in bank savings deposits earning meager interest which suggests many people are reticent to take market risk. There are plenty of short-term risks to be concerned with from geopolitical risks to a major policy mistake. A systemic concern is the crushing debt burdens in many regions and markets that will potentially impact long-term growth prospects. On the other hand, financial markets are not pricing in the potential for a fundamental shift in tax policy that could adjust the trajectory of the domestic economy and earnings. We are hopeful, but not optimistic, that the Trump administration and Congress can get something done before the congressional election cycle begins.

COMING UP NEXT WEEK		**Est.**
07/24 Markit Mfg PMI Flash	(Jul)	52.1
07/24 Existing Home Sales % Chg	(Jun)	-1.2%
07/25 Case Shiller 20 YY	(May)	5.8%
07/27 Durable Goods	(Jun)	3.1%
07/28 U Mich Sentiment Final	(Jul)	93.1
07/28 GDP Advance	(Q2)	2.6%
07/28 Core PCE Prices Advance	(Q2)	0.7%

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