The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

July 27, 2018

As of 07/27/2018		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	25,451.06	392.94	1.57	2.15	2.96	16.77
S&P 500	2,818.82	16.99	0.61	1.84	5.42	13.86
NASDAQ 100	7,296.78	-53.45	-0.73	0.98	14.08	23.32
S&P MidCap 400	1,975.22	-23.14	-1.16	1.53	3.93	11.53
Russell 2000	1,663.34	-33.47	-1.97	1.35	8.32	16.02

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	2.67	Euro/Dollar	1.17	-0.56
5-Year	2.84	Dollar/Yen	111.03	-0.36
10-Year	2.96	Sterling/Dollar	1.31	-0.21
30-Year	3.08	Dollar/Cad	1.31	-0.76

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

In June, the United States imposed a 25% tariff on imported steel and a 10% tariff on aluminum. Our global competitors replied with similar measures. In July, the U.S. levied tariffs on $34 billion worth of Chinese products, and it has vowed to increase this by another $16 billion in August. China has retaliated commensurately. President Trump subsequently threatened to impose tariffs on a total of $500 billion worth of goods from China – virtually everything that we import from that country. Finally, the President stated that he may institute a 25% tariff on imported cars, trucks and vehicle parts. On Wednesday, talks between the U.S. and the European Union resulted in a détente on trade threats and a loose agreement to continue discussions on reducing trade barriers and improving trade in the future. The U.S. may be looking to focus its trade efforts on China, which compared to Europe has almost 3 ½ times the trade deficit with the U.S. It is widely acknowledged that China subsidizes its companies and appropriates technologies from its trading partners, primarily the United States. China imports approximately $130 billion from the U.S. annually. Given that the U.S. imports almost four times the amount of goods that it exports to China, this puts us in a favorable bargaining position. Despite this advantage, trade disputes ultimately harm consumers and employment.

Economy

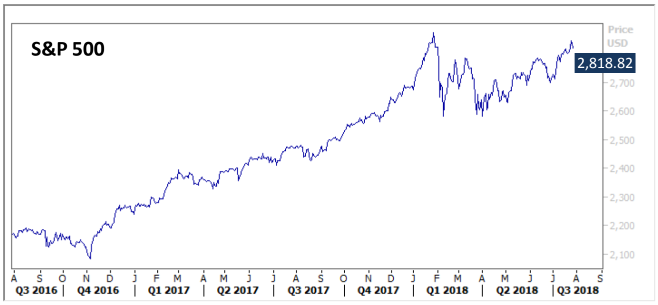
The economic headliner this week was Friday's report on second quarter real GDP. This was the first look at Q2 GDP and the figures were in line, rising at a 4.1% annual rate. This was the strongest GDP report since Q3 2014, and it is the fifth time this cycle that quarterly GDP has exceeded 4.0%. Consumer spending advanced by 4.0% and business spending on equipment increased by 3.9%. The front loading of deliveries of soybeans and other goods boosted exports. Domestic demand surged by 4.3% and the first six months of 2018 now show a 3.1% annual growth rate. In other news, existing home sales fell for a third straight month, declining by 0.6% in June to 5.38 million at an annual rate. Existing home sales have now fallen on an annual basis in five of the past six months. New home sales (reported on Wednesday) declined by 5.3% in June to a 631,000 annual rate. Finally, on Thursday, durable goods numbers increased by 1.0% in June with "core" capital goods orders advancing by 0.6% and "core" shipments increasing by 1.0%.

Fixed Income/Credit Market

Week-over-week, U.S. Treasury interest rates increased as much as 8.3 basis points (bps) at the 3-year tenor. Additionally, the benchmark 10-year Treasury yield is 6.1 bps higher on the week despite all the trade war rumblings impacting the global markets. This makes sense because President Trump and European Commission President Jean-Claude Juncker reached a preliminary trade agreement on Wednesday which eased the flight-to-safety trade, in effect allowing interest rates to continue their ascent. Yields on the front-end of the Treasury curve did not move in lockstep with the belly of the curve, which was likely due to the additional supply of $101 billion in 2-Year, 5-Year, and 7-Year fixed rated Treasury Notes that were auctioned this week. Moreover, the U.S. Treasury curve remains historically flat with the spread between the 2-year and 10-year Treasuries tightening approximately 2 bps on the week.

Equities

Despite the broad market S&P 500 moving towards highs reached earlier in the year, a late week pull back brought the index back to the trading range of the past few weeks. Markets moved higher with the mid-week news that trade talks in Washington between the U.S. and European Union would work towards new trade agreements with no tariffs. Generally favorable earnings reports also lifted most sectors for the week, with the exception of technology and housing stocks. The technology sector was dragged down by two of the largest social media companies, Facebook and Twitter, reporting sluggish user growth that could be attributed to stricter privacy rules in Europe and other company efforts to navigate privacy. Housing related companies were hit with the news release of weaker than expected U.S. housing data of both new and existing homes. Furthermore, some leading home supply and appliance companies reported higher costs due to trade tariffs which were detrimental to results and therefore the companies traded down significantly. About half of the S&P 500 companies have reported with aggregate results continuing to show growth of revenue and earnings above expectations.



Our View

The U.S. economy grew a robust 4.1% in the second quarter, driven by a sharp rebound in consumer spending which was aided by stimulus from the tax package. Export growth rose almost 10% indicating that concerns over the impact of tariffs pulled trade activity forward into the second quarter. The improvement in net exports added roughly 1.06% to GDP in the quarter. Final sales during the first half of 2018 averaged 3.5%, which are not impacted by the transitory effects of exports, and are more reflective of the actual underlying growth trends. The trade issue is also beginning to have a negative impact on the micro level for some companies. For example, GM cut its profit outlook for 2018 when it reported earnings this week, citing higher cost for raw materials. Prices for steel and aluminum, two key raw materials for the automakers, have been rising globally since tariffs were imposed. Rising material costs are affecting other industries as well causing investors to focus more closely on the potential deleterious margin impact that could result from a trade war. President Trump and EU President Juncker met this week to discuss the framework for a trade deal that went surprisingly well. Few specifics were offered after the meeting, but it was encouraging to hear both sides strike a more conciliatory tone. Given the vague agreement and the fact that talks between the U.S. and China seem to have broken down, it is too early to signal the "all clear" on the trade situation.

COMING UP NEXT WEEK		Est.
07/31 Consumption, Adjusted MM	(Jun)	0.4%
07/31 Consumer Confidence	(Jul)	126.5
08/01 ISM Manufacturing PMI	(Jul)	59.8
08/02 Factory Orders MM	(Jun)	1.0%
08/03 Non-Farm Payrolls	(Jul)	195k
08/03 ISM N-Mfg PMI	(Jul)	59.0

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