The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

February 10, 2017

As of 02/10/2017 STOCKS	Close	Wk Net Change	Wk % Change	Div Yield	YTD % Change	12 Mos % Change
DJIA	20,269.37	197.91	0.99	2.38	2.56	27.36
S&P 500	2,316.10	18.68	0.81	2.03	3.45	25.07
NASDAQ 100	5,226.69	65.09	1.26	1.17	7.46	31.78
S&P MidCap 400	1,720.84	14.20	0.83	1.64	3.63	36.96
Russell 2000	1,388.84	11.01	0.80	1.40	2.34	44.15

TREASURIES	Yield	FOREX	Price	Wk %Change
2-Year	1.19	Euro/Dollar	1.06	-1.38
5-Year	1.88	Dollar/Yen	113.19	0.43
10-Year	2.41	Sterling/Dollar	1.25	-0.01
30-Year	3.00	Dollar/Cad	1.31	0.41

Source: Thomson Reuters, Bloomberg

What Caught Our Eye This Week

There has been a lot of discussion in the investment industry regarding the movement of money over the past 40 years to passive (index) investing. Passive investment strategies simply attempt to track a specific index such as the S&P 500 Index. Active investment strategies, on the other hand, attempt to outperform an index by making investments which deviate from and hopefully outperform a specific index. Active managers tend not to be as diversified or as tax efficient as managers who use passive strategies. Active management has its own advantages though. Active managers can be very flexible in different kinds of market environments, and they can customize portfolios for an individual client based on specific client needs and parameters. Also, since active managers deviate from their respective indices, they have the possibility of outperforming their respective benchmarks over time. Active managers tend to perform well when earnings dispersion is high and stock correlations are low. At Peapack-Gladstone Bank, we have found that the best way to manage client portfolios is to utilize a combination of both active and passive strategies, capitalizing on the inherent strengths of each approach.

Economy

The economic calendar was a bit light this week, but the data continues to be positive. On Tuesday, the JOLTS report (job opening labor turnover survey) showed job openings remaining steady at 5.5 million. Overall, the net change in employment was +2.4 million in 2016. Also on Tuesday we learned that the trade deficit narrowed in December to $44.3 billion with exports growing faster than imports. Over the last 12 months, exports have increased by 4.2% while imports have increased by 4.6%. The total volume of trade grew by the most in 1.5 years. The best news is U.S. petroleum product imports which were 1.7x exports versus about 10x exports a decade ago. On Thursday, we were pleased to see weekly jobless claims decline by 12,000 to 234,000 during the week ending February 4th. The four-week moving average also declined settling in at 244,000. The Senior Loan Officer Opinion Survey was released on Monday and showed a modest tightening of lending standards with banks tightening credit card lending for the first time since 2010. Next week will be heavy with respect to economic data as we look forward to reports on retail sales, industrial production and housing starts.

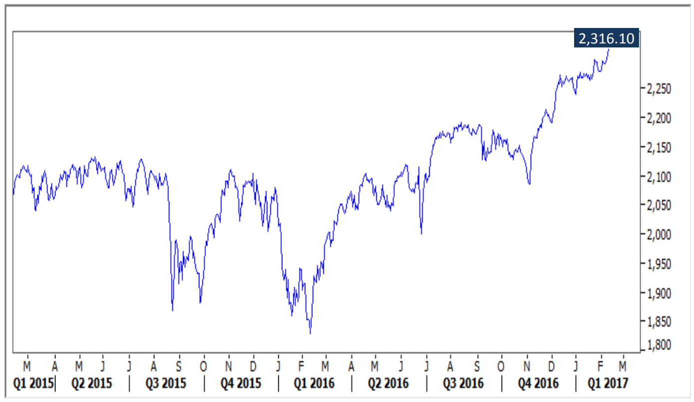
Fixed Income/Credit Market

Fixed income performance thus far in 2017 has been mostly positive in the sectors that we follow. The main force behind the results was the stabilization in U.S. Treasury yields as the world waits for more details on how President Trump's policies will play out. Also, continued massive amounts of quantitative easing around the world worked as planned, by pushing safe rates down in key developed markets and forcing investors into risk-on asset classes. The top performing fixed income sectors consisted of emerging market bonds (currency hedged) and domestic high yield bonds, which experienced total returns of approximately 2.8% and 1.4%, respectively. Other sectors which performed well were longer duration domestic investment grade bonds and international Treasuries (non-currency hedged) with total returns of roughly 1.2% and 1.0%, respectively. The poorest performing fixed income asset classes year-to-date have been international investment grade bonds (non-currency hedged) and short duration U.S. Treasuries with total returns of negative 0.7% and 0.1%, respectively.

Equities

Major stock averages continue to march higher with the DJIA (20,269) having no trouble staying comfortably above the milestone mark of 20,000. Thursday's snowstorm rally was particularly impressive with the broad S&P gaining .6%, piercing the 2300 level, and the NASDAQ setting its third record high this week. Small cap stocks also were sharply higher Thursday, as the Russell 2000 added 1.5% followed by an additional .76% Friday. Investors seem to be gaining confidence in the market as fourth quarter earnings appear to be solid. Traders are optimistic as the news flow from the Trump Administration indicates that a strong pro-business and tax reform agenda will be a continuing priority. Positive equity returns and record highs since the election have been remarkably steady. The three major averages have not experienced a one percent intra-day move up or down over the last two months, and this is consistent with the CBOE Volatility Index (VIX), down over 22.7% this year. Sector performance year to date has seen good leadership in consumer and technology stocks, while energy continues to lag.

S&P 500



Our View

The current financial market environment is fraught with uncertainty and seems to be overly responsive to marginal news. Many asset classes have been oscillating due to poor visibility for their potential outcomes. Emerging markets clearly have been subject to this volatility. The EM asset class sold off post election largely as interest rates adjusted higher on expectations of U.S. fiscal stimulus. As rates have stabilized, emerging markets have reversed and are approaching pre-election levels. Emerging market equities rose 11.2% last year, but remain inexpensive after a multi-year bear market. With confidence for improved global growth, especially with respect to the United States, it seems logical that emerging market equities should tangentially benefit. We believe investors should opportunistically add to emerging market equities on weakness. Exogenous risks, such as rising protectionism and Chinese structural changes, remain a concern that could cause corrections in this asset class. Overall, we see value in emerging market equities, and adding exposure will allow portfolios to become more diversified.

COMING UP NEXT WEEK		Est.
02/14 PPI Final Demand YY	(Jan)	1.6%
02/15 CPI YY, SA	(Jan)	2.4%
02/15 Core CPI YY, NSA	(Jan)	2.1%
02/15 NY Fed Manufacturing	(Feb)	7.5
02/15 Retail Sales MM	(Jan)	0.2%
02/15 Industrial Output MM	(Jan)	0%
02/16 Housing Starts Number MM	(Jan)	1.227mln

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