The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

June 23, 2017

| As of 06/23/2017 | | Wk | Wk | | YTD | 12 Mos |
|---|---|---|---|---|---|---|
| | | Net | % | Div | % | % |
| **STOCKS** | Close | Change | Change | Yield | Change | Change |
| DJIA | 21,394.76 | 10.48 | 0.05 | 2.32 | 8.26 | 18.79 |
| S&P 500 | 2,438.30 | 5.15 | 0.21 | 1.96 | 8.93 | 15.40 |
| NASDAQ 100 | 5,803.11 | 121.63 | 2.14 | 1.11 | 19.32 | 29.90 |
| S&P MidCap 400 | 1,743.95 | -9.51 | -0.54 | 1.72 | 5.02 | 14.92 |
| Russell 2000 | 1,414.78 | 8.05 | 0.57 | 1.44 | 4.28 | 20.72 |

| **TREASURIES** | Yield | **FOREX** | Price | Wk %Change |
|---|---|---|---|---|
| 2-Year | 1.34 | Euro/Dollar | 1.12 | -0.05 |
| 5-Year | 1.75 | Dollar/Yen | 111.27 | 0.34 |
| 10-Year | 2.14 | Sterling/Dollar | 1.27 | -0.46 |
| 30-Year | 2.71 | Dollar/Cad | 1.33 | 0.42 |

Source: Thomson Reuters & Bloomberg

**What Caught Our Eye This Week**

After four years of consideration, MSCI Inc. (the world's largest compiler of indexes), announced this week that it will add China A-shares to its Emerging Markets (EM) benchmark. A-shares are denominated in yuan and traded on the mainland Shanghai and Shenzhen exchanges. They are mostly owned by Chinese retail investors. Foreign investors currently hold only 1.5% of the mainland China market which has an estimated market cap of $7.5 trillion, making it the second largest after the United States. Currently, approximately 27% of the MSCI EM Index represents Chinese exposure through stocks traded offshore – in Hong Kong (H-shares) and in the U.S. The addition of 222 class A stocks will only increase the country's weighting by 0.73%. While initially a small inclusion, some expect China A-shares to be fully included in MSCI indexes in the future as 1) the local regulatory system becomes more aligned with international rules and 2) capital flow restrictions are further reduced. Chinese authorities desperately want their companies to be more widely owned, and members of the indexes are what investors will most likely own in the future. MSCI expects Chinese regulators to do more to open up its markets.

**Economy**

This week's economic calendar started out on Tuesday with a report on the United States' international trade balance. There was a widening in the goods deficit to -$116.8 billion, but this number came in above consensus estimates of -$123.8 billion. On Wednesday, existing home sales beat expectations despite median prices setting a record high. Sales rose 1.1% in May to 5.62 million versus a consensus of 5.55 million. This is an increase of 2.7% year-over-year. The median price of an existing home is now $252,800, and this metric has increased 5.8% over the past 12 months. Inventories have fallen for 24 consecutive months on a year-over-year basis. On Thursday, initial jobless claims rose 3,000 to a seasonally adjusted 241,000 in the week ended June 17th. This number came in slightly above consensus estimates of 240,000, and the four-week moving average increased 1,500 to 244,750. Jobless claims generally have hovered near four-decade lows in recent months. Finally, on Friday, new home sales rose and prices hit a record level. Purchases of new, single-family homes rose 2.9% to a seasonally adjusted annual rate of 610,000 in May. These numbers came in above expectations of 590,000 and increased 8.9% from a year earlier. The median price for a new home is now $345,800, the highest recorded for data dating back to 1963.

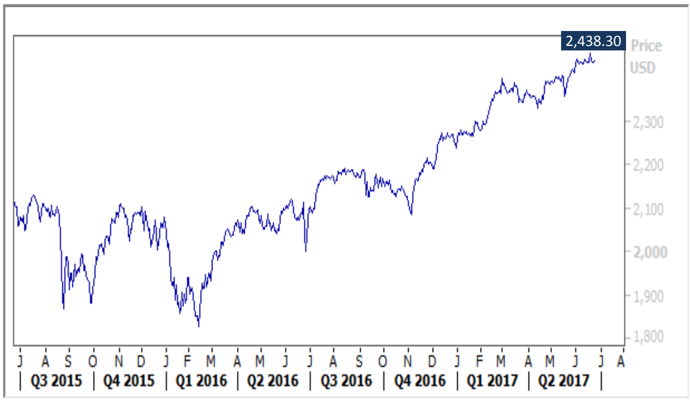
**Fixed Income/Credit Market**

The implied probability of the FOMC increasing rates for an additional 25 basis points (bps) in September is down to 22% versus 33% on June 13th. The reaction since the FOMC raised rates 25 bps on June 14th has been concerning as all tenors of the yield curve have compressed. Moreover, interest rates at the 1-month tenor are down 10 bps, while rates at the 30-year tenor are down 15 bps. This has caused the narrowest spread between 5-year and 30-year Treasury yields since 2007, at just roughly 96 bps. The recent sell-off in oil prices coupled with Japan announcing their plans to continue their easy monetary policies has helped drive demand for safe haven assets, particularly the long-end of the U.S. Treasury curve. According to Bloomberg, the Bloomberg Barclays U.S. Long Treasury Index has returned 2.42% month-to-date while the U.S. Short Treasury Index has only returned 0.03% over the same time period.

**Equities**

The broad equity market hovered near highs while underlying sectors continued to rotate. Energy stocks moved lower as crude oil breached bear market levels due to concerns of rising supplies, from the U.S. to Libya, that will offset production cuts from OPEC. Another area of weakness was in the apparel industry as Amazon disrupted another business category. Although Amazon has made limited progress in clothing, it announced a new program called Prime Wardrobe that allows members to order multiple clothing items to try and return unwanted items free of charge. Although this strategy may lead to higher sales, profitability will likely suffer and investors are concerned about the industry impact. The energy and retail weakness was offset by the significant strength in the healthcare sector stemming from the Senate bill released during the week that was interpreted as being less disruptive than the House bill earlier in the year. The annual Russell index rebalancing on Friday led to increased volume flow at the end of the week.

**S&P 500**




**Our View**

Equity indexes again this week lifted to new highs. Given the extended delay in many of the initiatives of President Trump's pro-growth agenda, it is clear that most of the energy for the positive return for equities this year has been provided by expectations of an improved earnings outlook. The bond market has also provided very solid returns as yields have moved markedly lower at the long end of the curve. The ten-year Treasury yield has dropped 30 basis points since the beginning of the year. Recent economic indicators have been more supportive of the bond market as falling industrial production, weakening housing starts and anemic employment reports are further evidence of an economy that continues to plod along. Despite the equity market reaching new highs, increasing caution is being reflected in the positioning of equity investors. Defensive and value stocks have been receiving more interest over the last few weeks. It is perhaps too early to suggest that investor sentiment has hit an inflection point, but it bears watching.

| COMING UP NEXT WEEK | | Est. |
|---|---|---|
| 06/26 Durable Goods | (May) | -0.6% |
| 06/26 Durables Ex-Transport | (May) | 0.5% |
| 06/29 GDP Final | (Q1) | 1.2% |
| 06/30 Personal Income MM | (May) | 0.3% |
| 06/30 Consumption, Adjusted MM | (May) | 0.1% |
| 06/30 Chicago PMI | (Jun) | 58.0 |
| 06/30 U Mich Sentiment Final | (Jun) | 94.5 |

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