The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

January 13, 2017

As of 01/13/2017		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	19,885.73	-78.07	-0.39	2.41	0.62	21.41
S&P 500	2,274.64	-2.34	-0.10	2.06	1.57	18.32
NASDAQ 100	5,059.51	52.43	1.05	1.19	4.03	18.41
S&P MidCap 400	1,687.40	5.33	0.32	1.67	1.62	30.91
Russell 2000	1,372.05	4.77	0.35	1.43	1.07	33.73

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.19	Euro/Dollar	1.06	0.98
5-Year	1.90	Dollar/Yen	114.53	-2.06
10-Year	2.40	Sterling/Dollar	1.22	-0.85
30-Year	2.99	Dollar/Cad	1.31	-0.85

Source: Thomson Reuters

What Caught Our Eye This Week

Many would be surprised to read that the ancient Han Dynasty in China, which existed concurrently with the Roman Empire, was comparable in size and power to the West's "great civilization." Furthermore, throughout much of human existence, China has been the technological leader on earth. Today, the United States dominates the technology industry, but the tide has been shifting over the past 18 years. Of the top six most valuable companies in the United States as measured by market capitalization, five are technology companies: Apple ($625B), Alphabet (parent of Google - $565B), Microsoft ($487B), Amazon (a technology retailer - $389B), and Facebook ($372B). The conglomerate Berkshire Hathaway ($400B) is the only non-technology company in the top six. By contrast, over the past 18 years, two Chinese companies have grown to a comparable size: Tencent Holdings ($246B) and Alibaba Group ($241B). Tencent provides messaging, social networking, and online gaming services. Alibaba is an online retailer with two popular websites: Taobao and Tmall. These global Chinese companies may one day become part of our familiar lexicon.

Economy

The most anticipated report this week was Friday's retail sales report. These figures advanced by 0.6% in December, coming in below consensus estimates of 0.7%. The all important control category, which excludes food service, autos, gas and building materials was only up 0.2%. Once again, auto sales were strong increasing by 2.4%, and nonstore retailers posted a 1.3% advance. Overall retail sales are up 4.1% over the past year, and over the past six months sales have increased at an annual rate of 5.2%. The largest declines were restaurants and bars and general merchandise stores. When examining fourth quarter real consumption, it appears growth will be approximately 2.9%. In other news this week, initial jobless claims increased by 10,000 to 247,000 during the week ending January 7th. The four-week average for jobless claims is now at 257,000. On Friday, the producer price index showed an increase of 0.3% in December, and is now up 1.6% year-over-year. This is the second straight monthly increase with prices rising in nearly every category. The PPI in 2016 had its largest calendar year increase since 2012. Next week, we will be examining the consumer price index, industrial production and monthly housing starts.

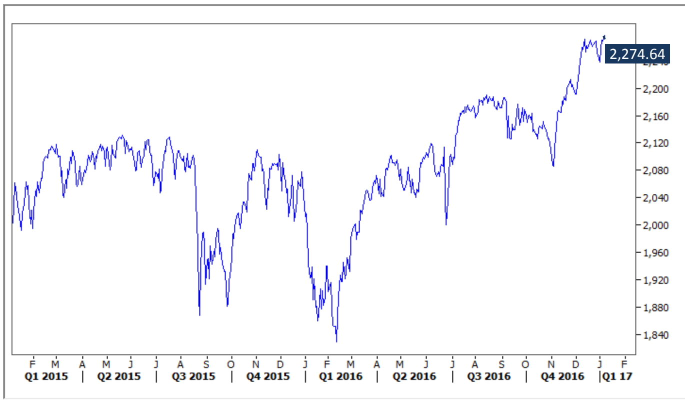
Fixed Income/Credit Market

Fixed-income ETF fund flows reveal that domestic inflation is a concern, according to Bloomberg data. Inflation protected bond fund ETFs saw net inflow of approximately $491 million, which increased the aggregate market cap of the sector by 1.5%. Municipal bonds also experienced a decent amount of inflow with the aggregate market cap increasing by 2.1% thus far in 2017. From a performance perspective, a Treasury Inflation-Protected Security (TIPS) bond fund ETF proxy returned approximately 0.89% year-to-date and a municipal bond ETF proxy has returned roughly 1.00%. From a duration perspective, ETF investors allocated most of their funds to the ultra-short and intermediate portion of the curve. More specifically, the aggregate market cap of the ultra-short and intermediate duration fixed income ETFs increased by 6.4% and 0.9%, respectively. In the UST market week-over-week, interest rates rallied roughly 0.5 to 2.9 basis points across the curve. The 2-year and 10-year U.S. Treasuries closed the week at approximately 1.20% and 2.40%, respectively.

Equities

Stock indexes were generally flat this week. Materials, Technology and Consumer Discretion continued to move higher after being laggards in 2016. Fourth quarter earnings releases began in earnest this week as several bellwether financials reported on Friday and, in general, offered positive guidance. Wall Street is optimistic that President-elect Trump will make policy changes that will spur economic growth through lower taxes and infrastructure spending. Mr. Trump did express concern this week over drug pricing that weighed on Healthcare stocks. The U.S. Senate passed a fiscal year 2017 budget resolution that contained instructions for Congress to repeal parts of the Affordable Care Act. There is currently no replacement which added to the cloud over healthcare stocks. The energy area was also weak as U.S. crude oil settled at $52.37, posting its first weekly loss in five weeks as OPEC production cuts remained a concern. Markets in the U.S. are closed on Monday for the Martin Luther King Holiday.

S&P 500



Our View

Aspects of the Trump rally seem to be unravelling to some degree. The dollar has been very strong since the election. The U.S. Dollar Index (DYX) rallied from 97 in early November to over 103 in early January, but weakened to around 101 this week. Dollar selling was more pronounced after Presidential-elect Donald Trump's press conference on Tuesday. To a large measure, the financial market's post-election reaction has been predicated on the expectation of tax reform and infrastructure spending. Mr. Trump's first press conference since being elected president focused on Russia and "fake news", as opposed to the anticipated economic and tax policy changes. Another sign of reversal has been in the Treasury market. After a selloff that took the 10-year Treasury to a 2.65% yield, Treasuries reversed and the 10-year settled at 2.40% as the week closed. The equity market sectors and industries that have been strong post election have begun to see some consolidation (such as banks). It would not be surprising to see a broader price adjustment as the new administration takes office and confronts the hard work ahead. Often expectations get ahead of reality and financial markets are susceptible to this human behavior.

COMING UP NEXT WEEK		**Est.**
01/17 NY Fed Manufacturing	(Jan)	8.2
01/18 CPI MM	(Dec)	0.3%
01/18 Core PPI YY	(Dec)	2.1%
01/18 Industrial Output MM	(Dec)	0.6%
01/19 Building Permits: Number	(Dec)	1.22mln
01/19 Philly Fed Business Index	(Jan)	16

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