



As of 02/03/2017		Wk Net Change	Wk % Change	Div Yield	YTD % Change	12 Mos % Change
STOCKS	Close					
DJIA	20,071.46	-22.32	-0.11	2.38	1.56	22.86
S&P 500	2,297.42	2.73	0.12	2.04	2.61	20.12
NASDAQ 100	5,161.60	-6.46	-0.13	1.17	6.13	23.72
S&P MidCap 400	1,706.64	9.97	0.59	1.65	2.75	31.55
Russell 2000	1,377.84	7.13	0.52	1.40	1.52	36.37
TREASURIES	Yield	FOREX		Price	Wk %Change	
2-Year	1.20	Euro/Dollar		1.08	0.71	
5-Year	1.91	Dollar/Yen		112.70	-2.09	
10-Year	2.47	Sterling/Dollar		1.25	-0.68	
30-Year	3.10	Dollar/Cad		1.30	-0.94	

Source: Thomson Reuters

What Caught Our Eye This Week

Multinational companies are drawn to Switzerland for their competitive tax and business environment. Those advantages are now at risk. In a few days, the citizens of Switzerland will vote on corporate tax reform that is meant to do away with the special tax benefits and tax both national and foreign companies at the same rate. It is estimated that, if approved, the Swiss corporate tax rate would increase from a range of 7.8% - 12% to 14% - 20%. Switzerland agreed in 2014 to abolish its tax haven status by eliminating preferential tax regimes for multinationals. If their proposal is not passed, they risk retaliation by international organizations such as the EU and the OECD. In order to offset the new higher federal tax for multinationals, the cantons, Switzerland's 26 regions, will have to lower the tax they levy on multinationals to dissuade them from leaving. The federal government has pledged to give the cantons extra funds to help cover budget shortfalls. Multinationals employ about 150,000 people in Switzerland and generate half the federal government's revenue from taxes on profits. It is a nervous time for the Swiss because both the U.S. and U.K. are making noise about cutting corporate tax rates.

Economy

The most anticipated report this week was the nonfarm payroll report, which was released on Friday. This report showed payrolls increasing by 227,000 in January, which was above the consensus forecast of 175,000. The unemployment rate increased to 4.8%, and the U-6 measure of unemployment increased to 9.4%. Average hourly earnings increased by 3 cents and are now up 2.5% year-over-year. Examining the different employment sectors, manufacturing gained 5,000 jobs, retail jobs increased by 45,000 and construction added 36,000 jobs. The labor force participation rate increased to 62.9%, which is still low by historical standards. In other news this week, the ISM manufacturing survey increased to 56.0 in January, and the forward looking new orders index increased to 60.4. Earlier in the week, we were pleased to see personal consumption increase by 0.5% in December and personal income increase by 0.3%. Disposable personal income also increased by 0.3%, and is now up 3.7% year-over-year. On Thursday, nonfarm business productivity showed an advance of 1.3% at an annual rate in the fourth quarter. This metric continues to be a soft spot for the economy, as productivity has only advanced at a 0.6% annual rate over the last five years.

Fixed Income/Credit Market

U.S. government bond yields rallied this week across the 2-year to 10-year tenors, while the 30-year Treasury rate increased 3.8 basis points. After the Fed left interest rates unchanged at this week's FOMC meeting and reiterated in their statement that they will lift rates gradually, the implied probability of a March rate hike decreased from approximately 33% to 28%. However, the benchmark 10-year Treasury note remains attractive when compared to other global 10-year bonds:

COUNTRY	RATE	Basis Point Spread vs. U.S.
U.S.	2.474	
U.K.	1.348	-112.6
France	1.074	-140
Germany	0.409	-206.5
Italy	2.251	-22.3
Spain	1.664	-81
Switzerland	-0.12	-259.4
Japan	0.09	-238.4

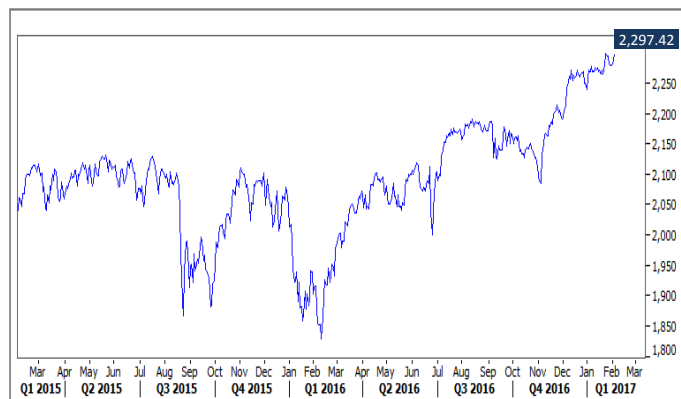
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Equities

Although the broad market was only slightly up for the week, volatility was noticeable. The week started lower due to the previous weekend's heightened political concerns. As the week went on, focus returned to corporate earnings. According to Bloomberg, a little over half of the S&P 500 companies have reported fourth quarter results, with about 50% of the companies beating sales expectations and 75% beating earnings expectations. Friday brought new excitement to the markets with the strong payroll numbers and news that the Trump administration ordered a review of the Dodd-Frank Act. These events lifted the broad market about .7% for the day, with particular strength in financial stocks, which were up 2% for the day and 1.7% for the week. Energy and industrial stocks were the weakest components of the market. Despite continued dollar strength, international markets were stronger than domestic markets for the week.

S&P 500



Our View

Equity markets in developed countries have moved sideways since the second week in December. Despite a noisy and contentious start of the Trump presidency, implied volatility of equity indexes fell to very low levels. Does this calm indifference by the financial markets indicate too much complacency on the part of investors? We think muted market action perhaps reflects current valuations and a dearth of concrete proposals that will have a meaningful impact on the macro environment. The caustic relationship developing between President Trump and the Democrats in Congress could potentially damage or delay the chances of a major fiscal stimulus program. With the domestic economy already exhibiting some acceleration off a tepid level of growth, a delay in fiscal stimulus could negatively impact business confidence. An element in Mr. Trump's control however is regulation. On Friday, at a White House meeting with corporate leaders, Mr. Trump promised major reductions in financial regulations. The Dodd-Frank and the creation of the Consumer Financial Protection Bureau have been often cited by opponents as government overreach. Lowering financial regulation should allow capital to flow more freely and increase economic activity.

COMING UP NEXT WEEK		Est.
02/07 International Trade MM	(Dec)	-\$45bln
02/07 Consumer Credit	(Dec)	\$20.6bln
02/09 Initial Jobless Claims	w/e	250k
02/10 Import Prices MM	(Jan)	0.2%
02/10 U Mich Sentiment Prelim	(Feb)	98