The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

March 24, 2017

As of 03/24/2017		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	20,596.72	-317.90	-1.52	2.36	4.22	17.59
S&P 500	2,343.98	-34.27	-1.44	1.98	4.72	15.15
NASDAQ 100	5,364.00	-44.77	-0.83	1.11	10.29	21.76
S&P MidCap 400	1,694.41	-36.73	-2.12	1.72	2.04	19.84
Russell 2000	1,354.64	-36.88	-2.65	1.47	-0.18	25.48

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.26	Euro/Dollar	1.08	0.53
5-Year	1.95	Dollar/Yen	111.33	-1.24
10-Year	2.42	Sterling/Dollar	1.25	0.57
30-Year	3.02	Dollar/Cad	1.34	0.20

Source: Thomson Reuters, Bloomberg

What Caught Our Eye This Week

The valuation of the stock market is predicated on many things including the level of interest rates, the equity risk premium, projected earnings, and the estimated growth of those earnings. Earnings forecast revisions have one of the most significant impacts on changes in market pricing. Since the election, the S&P 500 Index has risen by 10.4% based on the expectation that President Trump will reduce regulations and taxes and increase infrastructure spending. During this same timeframe, fiscal year 2017 earnings estimates for companies within the S&P 500 Index have risen by over 1% on a market-weighted basis. This has been completely driven by the technology sector (estimates up 15.7%) and the energy sector (estimates up 14.8%) in which the largest companies are disproportionately represented in the index. When we remove the technology and energy sectors from the index and adjust for weighting (equally weighting the remaining companies), we find that 2017 estimates for firms in the S&P 500 Index have declined by almost 1% since the elections. This means that the expectations for higher earnings rests only on a narrow segment of the market. Furthermore, the sustainability of market appreciation since the election continues to be predicated on President Trump's ability to successfully work with Congress to pass his initiatives.

Economy

The economic headliner this week was Friday's durable goods report, which showed once again that businesses are cautious with respect to equipment spending. New orders for durable goods rose 1.7% in February beating the consensus figure of 1.4%. Excluding the volatile transportation sector, durable goods increased by 0.4%. Core capital goods (new orders), which excludes aircraft and defense declined by 0.1%. Core capital goods (shipments) increased 1.0%, and are now up 9.8% over the last three months on an annual basis. In other news this week, new home sales increased by 6.1% in February to 592,000 easily surpassing consensus estimates. This was the second fastest pace going back to 2008, and overall new home sales are up 12.8% versus a year ago. On Wednesday, existing home sales showed a decline of 3.7% to 5.48 million in February. These figures came in below expectations, but over the last 12 months existing home sales have advanced by 5.4%. The median price of an existing home increased to $228,400 in February, and 42% of properties sold in less than a month. Finally on Thursday initial jobless claims increased by 15,000 to 258,000 during the week ending March 18th. This was the 107th consecutive week with claims below 300,000.

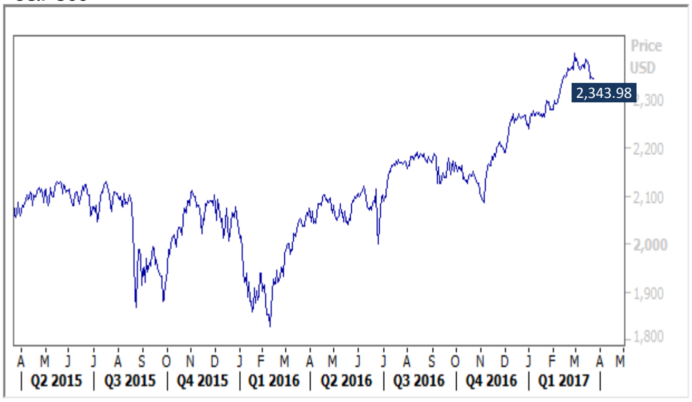
Fixed Income/Credit Market

High yield bonds, which performed well in 2016 due to the risk-on trade that lead to tightening credit spreads, have recently experienced a rough patch. Moreover, month-to-date the Bloomberg Barclays US Corporate High Yield Index is down approximately 1.25%, which makes it one of the poorest performing sectors in fixed income. The high yield option adjusted spread entered the month of March at 347 basis points (bps) and now resides over 50 bps higher at 403. Typically, credit spreads rise in anticipation of a deterioration of credit metrics and a rise in defaults. At this point, according to the Bloomberg Corporate Bankruptcy Index, bankruptcy activity has been on a steady decline since the middle of 2016 and credit fundamentals appear to be fairly solid. However, that could change if the Fed embarks on a more aggressive pace of monetary policy tightening which may be the reason for the recent risk-off sentiment in the credit markets.

Equities

Stock indexes fell this week as a delay in the intensely-negotiated health care bill was at a standoff in Washington. A Friday vote was scheduled, but GOP leaders were not able to produce enough support to pass the bill. Investors are increasingly expressing concern on President Trump's ability to deliver on his campaign promises regarding his pro-growth agenda. Not surprisingly, health care stocks were some of the worst performers as the uncertainty about pricing and reimbursement remain unclear. Oil also had a very tough week, suffering its third weekly drop ahead of a meeting this weekend in Kuwait. OPEC and its allies will assess the effectiveness of their recent actions and possibly explore their output cuts beyond this summer. Financials posted the biggest loss of the week at -3.8%, the largest drop since January 2016, on speculation that the current political atmosphere will cause delays in the enactment of Trump's deregulation policies. Uncertainty often creates selling pressure which the majority of sectors experienced this week. Positive performing sectors for the week included real estate and utilities.

S&P 500



Our View

The financial markets have been keenly focused on the progress of the Obamacare replacement bill constructed by Speaker Paul Ryan, and championed by President Trump, that has struggled to find enough support to pass a predominantly Republican House. The difficulty that the Republicans have had on repealing and replacing Obamacare has made many observers question their ability to accomplish tax reform in a reasonable timeframe. While this has the potential to have meaningful short-term market implications, we are also watching China's reaction to last week's Fed rate hike. Rate increases by the Federal Reserve put pressure on China to also increase rates to support the yuan. The yuan has been eroding against the dollar since the middle of 2014. The Chinese have spent roughly 1 trillion dollars in foreign reserves in an attempt to support the yuan. Additionally, as China cuts back on infrastructure spending in an effort to transition toward a more consumer-led economy, it is counting on the private sector to ameliorate the economic slowdown. Rising rates would be an impediment to private sector growth. Although the Chinese have raised some secondary rates after the Fed hike, they have left the benchmark 1-year lending rate unchanged. We think China's reaction to rising short rates in the U.S. has very important implications for financial markets.

COMING UP NEXT WEEK		**Est.**
03/28 CaseShiller 20 MM SA	(Jan)	0.7%
03/28 Consumer Confidence	(Mar)	113.9
03/30 GDP Final	(Q4)	2%
03/31 Consumption, Adjusted MM	(Feb)	0.2%
03/31 Chicago PMI	(Mar)	56.8
03/31 U Mich Sentiment Final	(Mar)	97.6

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