The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

September 1, 2017

As of 09/01/2017

STOCKS	Close	Wk Net Change	Wk % Change	Div Yield	YTD % Change	12 Mos % Change
DJIA	21,987.56	173.89	0.80	2.30	11.26	19.37
S&P 500	2,476.55	33.50	1.37	2.00	10.63	14.09
NASDAQ 100	5,987.90	165.37	2.84	1.10	23.12	25.17
S&P MidCap 400	1,737.79	28.82	1.69	1.62	4.65	11.14
Russell 2000	1,413.57	36.12	2.62	1.43	4.12	13.97

TREASURIES	Yield	FOREX	Price	Wk %Change
2-Year	1.34	Euro/Dollar	1.19	-0.57
5-Year	1.74	Dollar/Yen	110.28	0.83
10-Year	2.16	Sterling/Dollar	1.30	0.50
30-Year	2.77	Dollar/Cad	1.24	-0.76

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

Hurricane Harvey may initially have a very modest negative impact on our national economy, but it will most likely be neutral or provide a very modest boost to our economy as business operations come back on line and play catch up for the one-week stoppage. For Hurricane Katrina, New Orleans received about $120 billion in aid from the federal government. Some believe that the Houston area could receive aid in excess of this amount. Estimated insured losses for Harvey range from $10 billion to $80 billion, indicating the lack of clarity at this point. As measured by GDP, Houston is the fourth largest city in the United States. It is a major logistical hub, and it contains a third of our country's oil refining capacity and over 20% of our chemical export capacity. The greater metro area has an estimated GDP of $525 billion and a population of 6.3 million people. The storm has negatively impacted many local businesses to include: shipping , chemical production, oil refineries, auto dealers, retail sales, home builders, railroads, and commercial insurers, to name a few. Home repair businesses, building materials companies, and mass merchandisers may be the primary beneficiaries as Houstonians repair the damage in Harvey's wake.

Economy

The most anticipated report this week was the nonfarm payroll report, which was released on Friday. This report showed payrolls increasing by 156,000 in August, which was below the consensus forecast of 180,000. The unemployment rate ticked up to 4.4%, and the U-6 measure of unemployment was unchanged at 8.6%. Average hourly earnings increased by 3 cents and are now up 2.5% year-over-year. Examining the different employment sectors, manufacturing added 36,000 jobs and construction added 28,000. The labor force participation rate was unchanged at 62.9%, which is low by historical standards. The most disturbing news was the negative revisions to the June and July payroll reports totaling 41,000. After revisions, monthly job gains have averaged 185,000 over the past three months. In other news this week, second quarter GDP (second look) was revised up to 3% from 2.6%. Real consumption growth was revised up to 3.3% and second quarter business spending increased by 8.8%. On Thursday, personal income displayed a 0.4% increase in July while personal consumption advanced by 0.2%. Year-over-year personal income is up 2.7% and personal consumption is up 4.2%. Disposable personal income has increased by 2.7% over the past 12 months.

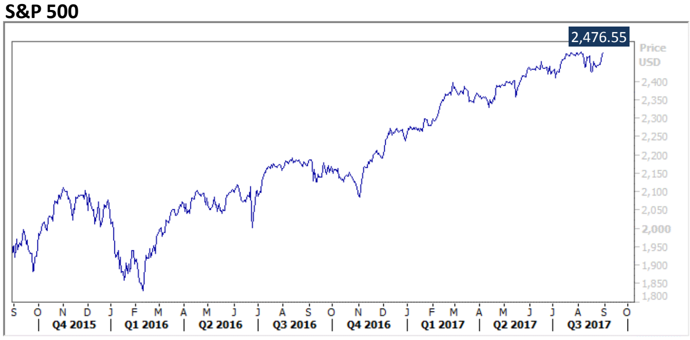
Fixed Income/Credit Market

Fixed income performance for the month of August was mostly positive in the traditional fixed income sectors that we follow. With the long end of the U.S. Treasury curve compressing approximately 17 basis points, it was no surprise that the top performing sector consisted of longer duration high quality bonds with a month-to-date total return of 2.08%. Other strong performing sectors included high quality intermediate duration bonds and TIPS with monthly returns of 1.07% and 1.04%, respectively. Concerning geopolitical events that transpired in August caused credit spreads to widen and caused investors to focus on liquidity. With that being said, the poorest performing sector was senior loans, which returned negative 0.26%. Other fixed income laggards included preferred equity and short term government bonds which returned negative 0.06% and positive 0.19%, respectively. Moving into September, all eyes will be focused on the 20th when the FOMC releases a statement. Markets are not expecting the FOMC to raise rates, but it is widely anticipated that a start date for shrinking the Fed's $4.5 trillion balance sheet will be announced.

Equities

Positive equity markets this week were the result of respectable domestic and international economic reports that dominated the enduring North Korean geopolitical concerns. Even the unfolding negative impacts of Hurricane Harvey could not derail the broad equity markets, albeit property and casualty insurers witnessed price declines for the week. The positive drivers were healthcare, which was fueled by market excitement over a large biotech acquisition, and a historic FDA approval of a gene therapy available in the U.S. for the first time. Market excitement with innovation spilled over to the technology sector, which rose to new highs. The positive weekly return completely offset the weakness earlier in the month and pushed the broad S&P 500 into a slightly positive close for the month of August, which was the fifth consecutive month of positive returns. The decent global economics and weaker dollar also drove international markets higher, with particular strength in the emerging markets.

S&P 500



Our View

Investors received two important indicators on the current status of the domestic economy this week. The U.S. Commerce Department released their revised estimate of GDP growth for the second quarter on Wednesday. Real GDP increased 3.0%, revised up from 2.6%, with consumption accounting for most of the revision, but almost every category was adjusted higher. The August employment report was modestly weaker than expected with nonfarm payrolls up 156,000. Despite the slight disappointment, the economy is continuing to produce an average of 175,0000 new jobs per month over the last 12 months. Collectively, these two reports indicate that the U.S. economy is in solid shape as we head into the back half of 2017. The domestic economy is growing at a reasonable pace and should not alter the Federal Reserve to maintain its measured approach to normalization. The situation can be characterized as a "goldilocks" environment for financial markets. There does not appear to be anything on the near-term horizon to meaningfully shift the path of the economy. The concern for financial markets will be the challenge as pressure builds on central bankers to adjust policy. We expect both the Fed and the ECB to be more demonstrative regarding rate and balance sheet plans in the next few months.

COMING UP NEXT WEEK		Est.
09/05 Factory Orders	(Jul)	-3.2%
09/06 International Trade	(Jul)	-55.6B
09/07 Productivity Revised	(Q2)	1.0%
09/08 Consumer Credit	(Jul)	15.00B

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