The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

June 8, 2018

As of 06/08/2018		Wk Net	Wk %	Div	YTD %	12 Mos %
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	25,316.53	681.32	2.77	2.19	2.42	19.52
S&P 500	2,779.03	44.41	1.60	1.91	3.92	14.16
NASDAQ 100	7,152.62	68.69	0.97	0.96	11.82	21.53
S&P MidCap 400	2,000.67	42.54	2.16	1.57	5.27	14.27
Russell 2000	1,672.49	24.51	1.49	1.25	8.92	18.15

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	2.50	Euro/Dollar	1.18	-0.06
5-Year	2.78	Dollar/Yen	109.53	-0.02
10-Year	2.95	Sterling/Dollar	1.34	0.02
30-Year	3.09	Dollar/Cad	1.29	-0.04

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

Since the Great Recession a decade ago, global central bank balance sheets have grown enormously. Individual governments printed currency worth trillions of dollars, and then their respective central banks used this money to purchase assets to include government and corporate bonds, stocks and currencies. The intent was to flood the global economy with cash in order to encourage banks to lend, companies to invest, and consumers to spend. Today, Europe, Japan and China continue to implement these asset-buying programs. Since 2008, the assets of the four major central banks (U.S., Europe, China, and Japan) have grown from $6.3 trillion to $20.2 trillion today. In the future, each central bank will have to sell many of these surplus holdings. Of the four major central bank balance sheets, the U.S. has the smallest “excess” ($4.3 trillion) and China has the largest ($5.6 trillion). However, relative to the size of each economy, the balances tell a different story. The U.S. Fed’s assets are worth about 22% of our country’s annual gross domestic product. This compares to 39% for Europe, 47% for China and 97% for Japan. Although the Great Recession has long ended, “paying for the medicine” that helped cushion the blow has only recently begun.

Economy

The best news this week came on Wednesday with the release of the trade deficit in goods and services. In April the trade deficit came in at $46.2 billion, which was smaller than the consensus expected of $49.0 billion. This trade deficit level is a seven month low, and over the past twelve months exports have increased by 9.9%. Exports in April increased to an all time record high. The effects of a shrinking trade deficit will add almost a full percentage point to real GDP in the second quarter. In other news this week the ISM non-manufacturing index increased to 58.6 in May, easily surpassing the consensus expected 57.6. The business activity index increased to 61.3 from 59.1, and the new orders index advanced to 60.5. Overall fourteen service industries reported growth in May. On Tuesday the JOLTS report (job openings and labor turnover survey) displayed 6.7 million job openings on the last business day of April. The job openings rate was 4.3 percent, and the quits rate remained at 2.3%. This report also showed a net employment gain over the past twelve months of 2.4 million. Finally on Thursday we were pleased to see weekly jobless claims decline by 1,000 to 220,000 during the week ending June 2nd.

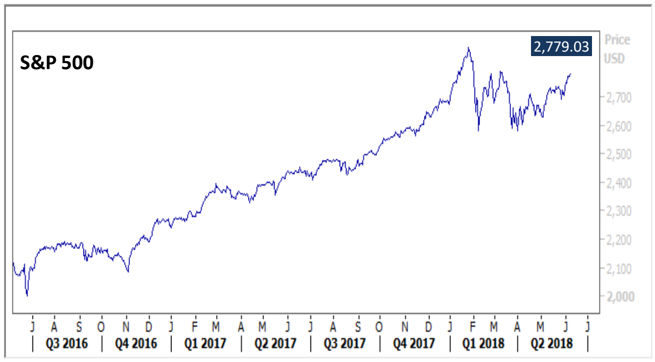
Fixed Income/Credit Market

Treasury yields increased slightly across the board this week with the spread between the 2-year and 10-year increasing 2.00 to 44.60. Treasury supply next week will include auctions of 3-yr ($32 b), 10-yr ($22b) and 30-yr ($14b). The market will be focused on the Fed’s decision on June 13th where they are expected to raise rates 25 bps. This would be the sixth rate hike since the tightening cycle began. The ECB meets on June 14th and could announce, the plan to end Europe’s QE. The expectation would be for a gradual approach to wind down accommodation. U. S. Treasury yields remain attractive relative to other global benchmarks and continue to be a safe haven trade.

Country	Rate	Basis point spread vs U.S. 10-yr
U.S.	2.944	
U.K	1.388	-155.6
France	0.826	-211.8
Germany	0.453	-249.1
Italy	3.116	+17.2
Japan	0.047	-289.7

Equities

Despite trade policy concerns dominating the news flow, equities moved steadily higher this week. Solid economic indicators released during the week led to a positive lift in the broad equities indexes. Last week’s strong jobs number coupled with this week’s Jolts Job Openings survey demonstrate a vibrant employment environment, which in turn is favorable for the consumer. Accordingly, the consumer discretionary sector was one of the strongest sectors for the week. Positive returns were also broadly distributed across the S&P 500 sectors, with all sectors up except the utilities sector. Although technology continued its momentum into the mid-week and reached an all-time high, news of Apple cutting back on orders from its suppliers cooled the technology rally. The small cap Russell 2000 index also reached all-time highs during the week. Next week investors will be focusing on the inflation reports and the mid-week Fed meeting announcing interest rate policy.



Our View

Geopolitical and trade events will occupy the market's attention over the next few days. This coming weekend the 44th G7 summit will be held in Quebec, Canada. Given the recent tariffs imposed by the United States on steel and aluminum against the EU and Canada, talks are likely to be tense and potentially combative. On Tuesday, President Trump will meet in Singapore with the North Korean leader to discuss denuclearization. Investors will pay attention to these important meetings, but it is likely that these discussions will not culminate in a definitive agreement or resolution in either situation. The Federal Reserve and the ECB both have critical “live decision” meetings next week. Fed futures indicate that the Fed is almost sure to raise the fed funds rate another 25 basis points. Fed officials have signaled the hike, and it seems justified given the tight U.S. labor market, and the anecdotal evidence emerging of bottlenecks and capacity constraints increasingly crimping corporate supply chains. The commentary and press conference will be carefully scrutinized for signals of future Fed action. The meeting that has the potential to be provocative from a financial market perspective is the ECB meeting. The ECB’s quantitative easing program is scheduled to end in October, and except for the meeting next week they only have meetings in July and September. The ECB will probably want to prepare the markets well before a change in policy, so an announcement in June or July seems likely.

COMING UP NEXT WEEK		Est.
06/12 CPI YoY	(May)	2.8%
06/13 PPI Final Demand YoY	(May)	2.8%
06/14 Retails Sales MoM	(May)	0.4%
06/15 Industrial Production MoM	(May)	0.2%
06/15 U Mich Sentiment Prelim	(Jun)	98.5