The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

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As of 02/02/2018		Wk Net	Wk %		YTD %	12 Mos %
STOCKS	Close	Change	Change	Div Yield	Change	Change
DJIA	25,520.96	-1095.75	-4.12	2.05	3.24	28.34
S&P 500	2,762.13	-110.74	-3.85	1.84	3.29	21.08
NASDAQ 100	6,760.29	-262.68	-3.74	1.00	5.69	31.33
S&P MidCap 400	1,917.74	-77.49	-3.88	1.49	0.90	13.82
Russell 2000	1,547.27	-60.79	-3.78	1.30	0.78	14.00

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	2.14	Euro/Dollar	1.25	0.30
5-Year	2.59	Dollar/Yen	110.09	1.25
10-Year	2.84	Sterling/Dollar	1.41	-0.38
30-Year	3.08	Dollar/Cad	1.24	0.80

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

The deadline to raise the debt ceiling has been moved to early March largely due to the new tax law which is expected to lower tax receipts by $10 - $15 billion per month. While corporations are expected to pay an estimated $79 billion in one-time taxes on foreign revenue, the Congressional Budget Office (CBO) does not expect that money will be recorded in time before the Treasury exhausts its special accounting measures. When these measures are depleted, the Treasury can only use cash on hand and incoming revenue to pay bills. The debt ceiling was created in 1917 by Congress to allow the U.S. Treasury to borrow money without specific approval if the total amount borrowed was below a certain level. The current debt limit is $20.455 trillion. Congress has raised the debt limit 74 times since 1962, including 18 times under Reagan, 8 times under Clinton, 7 times under G.W. Bush, and 5 times under Obama. The next opportunity to raise the debt ceiling will likely be in the next few days as lawmakers must vote to authorize spending or they risk another government shutdown.

Economy

The most anticipated report this week was the nonfarm payroll report, which was released on Friday. This report showed payrolls increasing by 200,000 in January, which was above the consensus forecast of 180,000. The unemployment rate was unchanged at 4.1%, and the U-6 measure of unemployment increased to 8.2%. Average hourly earning increased by 0.3% and are now up 2.9% year-over-year. This happens to be the largest annual increase in 8.5 years. The labor force participation rate was 62.7% for the fourth consecutive month. There were also negative revisions made to the November jobs report (↓36,000), but positive revisions to December figures (↑12,000). Examining the different employment sectors, manufacturing added 15,000 jobs, construction added 36,000 and healthcare 21,000. In other news this week, personal income displayed a 0.4% increase in December and personal consumption also increased by 0.4%. Year-over-year, personal income is up 4.1% and personal consumption is up 4.6%. The personal savings rate has declined to 2.4%, which is the lowest level since September 2005. Finally on Thursday nonfarm productivity was reported for the fourth quarter and showed a decrease of 0.1% at an annual rate. The final figures for 2017 were disappointing with productivity only increasing by 1.2%.

Fixed Income/Credit Market

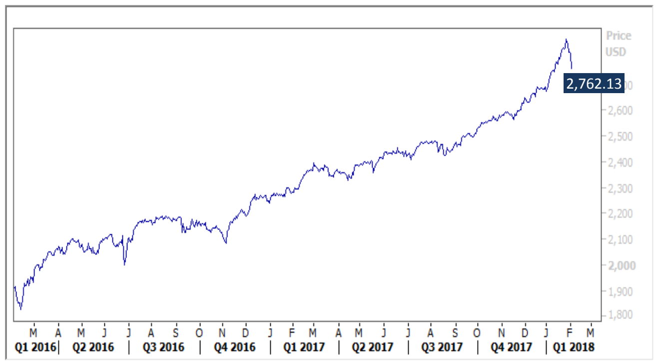
Month-over-month the 10-year U.S. Treasury yield increased 37.2 basis points (bps) to close this week at roughly 2.84%. Globally, most of the nations that we follow have also seen yields on their 10-year debt increase during the same period. Aside from the U.S., the two biggest monthly increases came from Germany and the U.K. which rose 30.1 bps and 29 bps, respectively. Switzerland's 10-year bond yield increased 25.8 bps from -.159% to .116%. Despite the positive movements globally, the 10-year U.S. Treasury remains attractive when compared to other global 10-year bonds.

Country	Rate	Basis point spread vs U.S.
U.S.	2.835	
U.K	1.576	-125.9
France	1.013	-182.2
Germany	0.762	-207.3
Italy	2.035	-80
Spain	1.456	-137.9
Switzerland	0.116	-271.9
Japan	0.074	-276.1

Equities

Global equity markets fell sharply this week as investors digested rising interest rates. The U.S. 10-year Treasury's rise of nearly 15% week-over-week and continued political dysfunction drove the market lower. Domestic equities lost nearly half of their 2018 gains this week and overseas markets, specifically Europe, entered into the red, erasing all of 2018's gains. Despite a negative week for equities, companies have reported strong results from the prior quarter. Currently, half of the constituents of the S&P 500 Index have released their Q4 2017 results reporting 15.3% earnings growth and 10% revenue growth year-over-year. Top line results have been strong with nearly 80% of the companies who have reported surpassing expectations, reflecting growth momentum. Bottom line results also have been strong with 78% of the companies beating earnings expectations, 9% reporting in-line with consensus, and 13% missing analysts' forecasts. This week's worst performing sector was the energy sector declining 6.75% due to disappointing earnings results. All 11 sectors were down for the week but the notorious "safe sectors", telecommunications and utilities, weathered the sell off declining 0.82% and 2.28%, respectively.

S&P 500



Our View

Equity market volatility picked up markedly this past week due to investor concern over rising interest rates. The 10-year U.S. Treasury yield broke above the 2.80% level and approached a four-year high. Since the end of last August, the 10-year Treasury yield has risen from 2.05% to 2.84% or roughly a 35% increase in yield. Inflation expectations are tightly correlated with the 10-year Treasury yield and a key driver of the recent increase in bond yields. Tightening labor market conditions coupled with a weak dollar and poor productivity are creating an environment that should lead to higher inflation. The fiscal stimulus provided by the recent tax cut and the prospect of a $1.5 trillion infrastructure proposal from President Trump adds fuel to inflation expectations. The Fed Reserve concluded its first policy meeting of 2018 on Wednesday (which was Janet Yellen's last as Fed Chair). The Fed left the fed funds rate unchanged, but it expects inflation to continue to rise and approach their 2% target. The magnitude of the recent rate move is meaningful, but there have been more extreme rate moves in recent memory. The bond market corrected over 100 basis points during the 2013 taper tantrum and after the 2016 presidential election. During the taper tantrum, the U.S. 10-year Treasury broke 3% and the S&P 500 corrected over 10%. At a certain point, rising interest rates will create volatility regardless of short-term earnings momentum.

COMING UP NEXT WEEK		Est.
02/05 ISM N-Mfg PMI	(Jan)	56.3
02/06 International Trade MM $	(Dec)	-51.7B
02/07 Consumer Credit	(Dec)	21.65B

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