The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

May 25, 2018

As of 05/25/2018		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	24,753.09	38.00	0.15	2.18	0.14	17.41
S&P 500	2,721.33	8.36	0.31	1.91	1.83	12.73
NASDAQ 100	6,960.55	94.30	1.37	0.98	8.82	20.46
S&P MidCap 400	1,946.87	3.50	0.18	1.55	2.44	12.45
Russell 2000	1,626.48	-0.15	-0.01	1.26	5.92	17.57

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	2.48	Euro/Dollar	1.17	-1.02
5-Year	2.76	Dollar/Yen	109.48	-1.16
10-Year	2.93	Sterling/Dollar	1.33	-1.21
30-Year	3.09	Dollar/Cad	1.30	0.66

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

The approximately $13.2 trillion of American household debt consists primarily of mortgage balances ($8.8 trillion), student debt ($1.4 trillion) and credit card balances ($0.8 trillion). Student loan delinquencies have been declining slightly since 2013, however the 10.7% delinquency rate (90 days late or more) has remained menacingly high. If we exclude students that are still in school and those that are unemployed or exempt for other reasons, the delinquency rate jumps to 22%. Although the improving job market and rising wages have contributed to the modest drop in student loan delinquencies, much of the decrease has been the result of the government's forbearance and income-driven repayment programs. The forbearance program allows borrowers to suspend loan payments for up to 18 months if they need a respite – losing a job for instance. This allows the borrower to remain in good credit standing with a simple phone call. The income-driven repayment program allows borrowers to reset their monthly payment to a specific percentage of their discretionary income (often 10%) and allows remaining loan balances to be forgiven after 10, 20 or 25 years depending on certain criteria. About 6.5 million Americans are enrolled in the income-driven repayment program which requires a written application and typically takes a couple of weeks for approval. The Department of Education, which underwrites about 90% of all student loans, will face a rising tide of defaulted school loans for many years to come.

Economy

The most anticipated report this week was the durable goods report, which was released on Friday. Overall, orders for durable goods decreased by 1.7%, led by a large drop in orders for transportation equipment. The best news was centered in the "core" data, which exclude aircraft and defense. Core capital goods orders increased by 1.0%, and core capital goods shipments advanced by 0.8%. Core capital goods orders are one of the best leading indicators for the U.S. economy, and core capital goods shipments are used by the government to calculate business investment for GDP purposes. In other news this week, existing home sales figures for April declined by 2.5% to 5.46 million at an annual rate. These numbers were below the consensus forecast of 5.55 million and, over the past 12 months, existing home sales are now down 1.4%. The median price of an existing home is now at $257,900, an increase of 5.3% year-over-year. Supply is the big story here as inventories have declined on a year-over-year basis for 35 consecutive months. On Wednesday, new home sales were reported and also declined, dropping by 1.5% in April to 662,000 at an annual rate. These figures were less than expected, and there were negative revisions to prior months. The median price of a new home sold is now at $312,400.

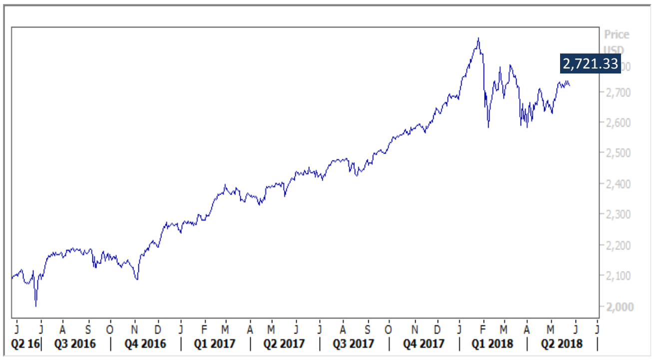
Fixed Income/Credit Market

Geopolitical risk and a less hawkish Fed contributed heavily to a flatter U.S. Treasury yield curve week-over-week despite the abundance of Treasury supply which topped out at $231B. The auction cycle concluded on Thursday with $30B 7-year notes coming to market at 2.93%, however, headline risk and weaker topline durable goods orders already have the 7-year tenor trading roughly 5 basis points (bps) lower at 2.89%. On the week, the interest rates on the 7-year and 10-year notes led the charge lower, dropping approximately 12.5 bps. Additionally, the spread between the 2-year and 10-year Treasuries compressed approximately 5.4 bps to 45.4 bps as 2-year and 10-year yields are down 7.1 bps and 12.5 bps, respectively.

Equities

Stocks gained early in the week as trade concerns waned, oil passed the $72.50 level, and yields continued to fall. Gains quickly reversed as trade tensions with China escalated once again and President Trump cancelled the North Korea Summit. The energy sector which led the market last week gaining 1.5% was this week's worst performer. Oil reached a high of $72.83 on Tuesday and closed at $67.87, a 6.8% decline from this week's peak level. The decline in oil prices resulted from the world's largest oil exporter, Saudi Arabia, announcing their plan to increase supply. Falling yields this week eased pressure on interest-sensitive sectors, utilities and real estate (last week's worst performers), which led to the broad market gaining 3.2% and 2.0%, respectively.

S&P 500



Our View

The FOMC minutes released on Wednesday gave further insight into the Fed's stance on the current inflationary environment. It was noted that a majority of the FOMC members expect inflation to potentially overshoot the 2% target for a period of time given the recent economic momentum provided by years of extremely accommodative monetary policy, tax reform and deregulation. However, they are not overly concerned that it will significantly overshoot the target. With that being said, the December of 2018 Fed funds futures contract, which started the week at 2.22%, compressed 8 basis points (bps) to 2.14%. The market currently predicts that the Fed will increase rates 25 bps when it meets on June 14th, but the probability of two additional hikes beyond June is declining. Overseas, escalating geopolitical risks cause both international developed and developing markets to fall on the week. It was a tumultuous week in Turkey as the currency plunged and the central bank had to institute an emergency rate hike to temporarily halt the selloff. The central bank went a step further and is allowing exporters to repay dollar denominated debt in the Turkish lira until the end of July. In Italy, the populist revival is putting pressure on the European Union and investors voiced their concern by pushing the Italian 5-year credit default swap spread up approximately 65 bps since the beginning of May to 1.65%. Overall, the global economy is still strong from a fundamental economic perspective, but we be will closely watching the recent international developments for signs of contagion.

COMING UP NEXT WEEK		**Est.**
05/29 Consumer Confidence	(Mar)	128.0
05/30 GDP 2nd Estimate	(Q1)	2.3%
05/31 Personal Income MM	(Apr)	0.3%
05/31 Consumption, Adjusted MM	(Apr)	0.35%
06/01 Non-Farm Payrolls	(May)	185k
06/01 Unemployment Rate	(May)	3.9%
06/01 ISM Manufacturing PMI	(May)	58.4

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