The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

September 22, 2017

As of 09/22/2017		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	22,349.59	81.25	0.36	2.29	13.09	21.52
S&P 500	2,502.22	1.99	0.08	1.98	11.78	14.95
NASDAQ 100	5,932.32	-55.68	-0.93	1.11	21.97	21.28
S&P MidCap 400	1,768.65	14.74	0.84	1.58	6.51	13.16
Russell 2000	1,450.78	19.07	1.33	1.39	6.89	14.82

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.44	Euro/Dollar	1.19	0.03
5-Year	1.86	Dollar/Yen	112.06	1.09
10-Year	2.26	Sterling/Dollar	1.35	-0.52
30-Year	2.79	Dollar/Cad	1.23	1.09

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

Drug prices continue to rise faster than both wages and the cost of living. No one can agree upon how to control the prices. Generic drugs have been around since the 1920's when the company that makes Bayer aspirin fought against a generic version. A generic drug is an exact copy of its referenced medicine and must have the same chemical structure. Nearly 3.9 billion generic prescriptions were dispensed in 2016 accounting for 89% of all prescriptions. Generic medicines generated $253 billion in savings last year. Biosimilars are the generic versions of biologic medicines which are much larger and more complex than chemical medicines. As the name implies, a biosimilar is 'like' the original but not identical; therefore, it has a more extensive approval process. This complexity increases the challenges as well as the costs. Biosimilars are not expected to generate the same savings. The branded biologic drug Neupogen lost about 10% of its market share when the biosimilar Zarxio was approved in 2015 with a 15% price discount only. In contrast, within six months of a generic drug's availability, a branded chemical drug typically loses 75% of its sales and the price savings on average is about 40%. As the understanding of biologics and biosimilars evolves, the hope is that they can further reduce prices.

Economy

The economic calendar was a bit light this week, but we did receive some negative news with respect to the housing market. Existing home sales were reported on Wednesday and for the third month in a row these figures declined, posting a 1.7% decrease in August to 5.35 million units. Over the last 12 months, these sales have only advanced by 0.2%, and the median price of an existing home has declined to $253,500. A portion of this market has been impacted by hurricanes, but the major headwind for sales has been a significant decline in inventories, which are down 6.5% from a year ago. On Tuesday, we received housing starts data for August and these figures declined by 0.8%, and over the past year these numbers are up only 1.4%. This most recent decline was heavily impacted by multi-family starts which fell by 6.5% in August and are now down 24.7% year-over-year. The good news was that single-family starts rose 1.6% and are now up 17.1% from a year ago. On Thursday, we were pleased to see weekly jobless claims decline by 23,000 to 259,000 during the week ending September 16th. The four-week moving average is now at 269,000. Finally, we were happy to see the Philadelphia Fed manufacturing survey advance to 23.8 in September with the new orders index rising to 29.5.

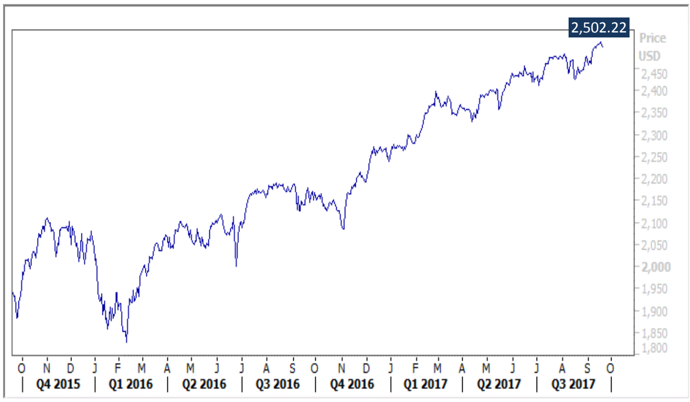
Fixed Income/Credit Market

Over the last two weeks, yields across the U.S. Treasury curve have surged anywhere from approximately 13 to 24 basis points (bps). The abatement of geopolitical concerns surrounding North Korea and confirmation from the Fed to begin its balance sheet run-off in October pushed the 10-year Treasury yield up to 2.26%. While the longer run Fed funds forecast decreased 25 bps, the committee's general tone was hawkish and indicated there is still room for further monetary tightening in 2017. The implied probability of a rate hike in December increased to 63.2%, up from 26.9% at the end of the first week of September. According to Bloomberg's forward curve matrix, the 10-year U.S. Treasury is now forecasted to reach 2.46% over a 1-year horizon, a 21 basis point increase from two weeks ago during the rally.

Equities

The stock market was stifled this week by the Federal Reserve FOMC policy meeting outlining changes in monetary policy. Although the announcement of both the balance sheet normalization and future rate hikes had been expected, markets lost resilience due to the expectation of a less accommodative policy. Equity market sectors reacted differently to the announcement with positive movements in financials, industrials, energy and materials, while the utilities and consumer staples sectors declined. The healthcare sector was weak due to renewed efforts to repeal the Affordable Care Act, which adds to uncertainties in the healthcare industry. The fed announcement did not significantly impact currencies, which helped international equity markets to remain positive. The third quarter earnings period ends next week and reporting will commence thereafter. Although the third quarter earnings are expected to continue advancing, the rate of growth is expected to decelerate to approximately 3% compared to double digit earnings growth in the two previous quarters.

S&P 500



Our View

The current state of extraordinarily accommodative monetary policy was dealt a blow this week, with the official announcement of the start date of the Fed's balance sheet normalization process. Starting in October the Fed will allow up to $10 billion per month, comprised of up to $6 billion of U.S. Treasury securities and up to $4 billion of agency debt and agency mortgage backed securities, to mature from its $4.2 trillion securities portfolio. Up until this point, the Fed has been maintaining the size of its enormous balance sheet by reinvesting all the principal payments by purchasing new bonds. The Fed intends to increase the pace of portfolio roll off by $10 billion per quarter up to a maximum monthly amount of $50 billion. With that being said, the Fed's securities portfolio is not projected to drop below $4 trillion until August of 2018. The Fed raised its GDP forecast for 2017 from 2.2% back in June to 2.4% and stated that economic activity has been rising moderately and risks moving forward in the near term appear to be balanced. Moving forward 12 of the 16 FOMC members would like to hike interest rates at least 25 basis points in December, so at this point another rate increase this year is looking probable.

COMING UP NEXT WEEK		Est.
09/26 CaseShiller 20 MM SA	(Jul)	0.2%
09/27 Durable Goods	(Aug)	1.0%
09/28 GDP Deflator Final	(Q2)	1.0%
09/28 Core PCE Prices Final	(Q2)	0.9%
09/29 Personal Income MM	(Aug)	0.3%
09/29 Consumption, Adjusted MM	(Aug)	0.1%

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