The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

March 16, 2018

As of 03/16/2018		Wk Net Change	Wk % Change	Div Yield	YTD % Change	12 Mos % Change
STOCKS	Close					
DJIA	24,946.51	-389.23	-1.54	2.13	0.92	19.16
S&P 500	2,752.01	-34.56	-1.24	1.87	2.89	15.51
NASDAQ 100	7,019.95	-81.23	-1.14	0.98	9.75	29.71
S&P MidCap 400	1,935.65	-13.41	-0.69	1.53	1.85	12.00
Russell 2000	1,586.05	-11.09	-0.69	1.28	3.37	14.51

TREASURIES	Yield	FOREX	Price	Wk %Change
2-Year	2.29	Euro/Dollar	1.23	-0.19
5-Year	2.64	Dollar/Yen	106.05	-0.72
10-Year	2.84	Sterling/Dollar	1.39	0.66
30-Year	3.08	Dollar/Cad	1.31	2.18

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

Blockchain, the technology behind the digital currency bitcoin, may be the technology most likely to change the business world. Blockchain is the underlying electronic fabric recording every step in a digital transaction exactly as it occurs. The chain then stitches that data into encrypted blocks that can never be modified. Each encrypted block contains the history of every block before it along with timestamped data. A blockchain is made up of two primary components: a decentralized network facilitating and verifying transactions, and the immutable ledger that network maintains. The power of this distributed ledger technology has applications across many industries and governments. Blockchain will be very useful anywhere in business where information is shared and then must be reconciled. The most obvious uses are in the financial industry, the health-care industry and any supply-chain business. A company engaged in cross-border trade could become more competitive if governments adopted digital technology. Dubai has stated its intent on being the first blockchain-powered government in the world by 2020. When it comes to digital transactions, you can put anything on a blockchain, and that makes its potential formidable. While still in its infancy, blockchain could be the next household name like the cloud.

Economy

This week offered an abundance of economic news with some of the data negative and some of the data positive. Starting on Tuesday the consumer price index reported moderate inflation increases with the February CPI increasing by .150% and the "core" CPI advancing by .182%. Over the past 12 months, the headline CPI has increased by 2.2%, and the "core" CPI has increased by 1.8%. On Wednesday the producer price index showed a gain of 0.2% in February, which was above consensus expectations. The "core" PPI also increased by 0.2% and is now up 2.5% year-over-year. Energy prices declined by 0.5%, and food prices decreased for a third consecutive month. Also on Wednesday retail sales were soft for the third consecutive month with the headline figure declining by 0.1%. The "control" category, which excludes food service, autos, gas and building materials increased by 0.1%, which was less than expected. Nonstore retailers were once again the bright spot with an advance of 1.0% in February. Housing starts were released on Friday and declined by 7.0% to 1.236 million units in February. Single family starts were up 2.9%, but single family permits were down 0.6%. Finally, industrial production data increased by 1.1% in February and manufacturing output advanced by 1.2%.

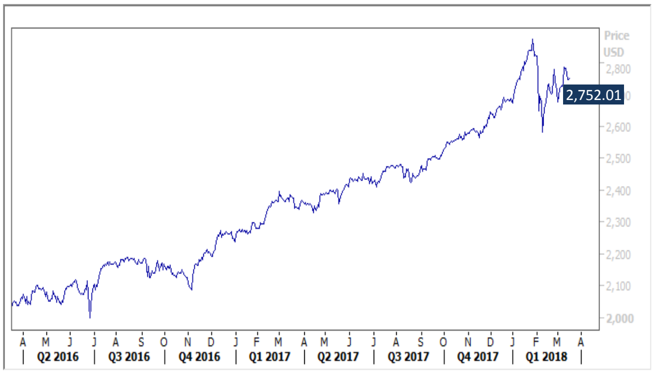
Fixed Income/Credit Market

As interest rates across the U.S. Treasury curve have increased in 2018, corporate credit investors have been more selective with their asset purchases. Rising interest rates have increased the cost of issuing new debt for corporations and the recent talk of tariffs potentially impacting corporate profits is pushing credit spreads wider. Since the end of 2017 in the investment grade sector, the 5-year AA, A and BBB – rated composites are currently 14.2 bps, 12.9 bps, and 11.8 bps higher, respectively. In the high yield market, the 5-year BB and B – rated composites are trading 23.3 bps and 12.3 bps higher, respectively. Week-over-week, U.S. Treasury yields were mixed across the curve. With the FOMC meeting scheduled for 3/21/18 and the implied probability of a rate hike currently at 100%, yields on the front-end of the curve were up as much as 13.8 bps at the 1-month tenor. On the week, the 5-year through 30-year tenors are lower anywhere from 0.7 bps to 7.9 bps.

Equities

The S&P 500 Index suffered four days of losses before reversing course on Friday recording a gain of 0.17% for the day but down 1.28% week-over-week. The largest factors influencing this week's market actions were increasing concerns of a trade war, weak retail sales data, and expectations of inflation growth moderating. Nine of the eleven sectors that make up the S&P 500 Index closed in negative territory with the worst performers being the materials and financials sectors down 3.49% and 2.73%, respectively. The only sectors to post gains for the week were utilities and real estate posting gains of 1.84% and 0.97%, respectively. The VIX closed at 15.8 today, below its historical average of approximately 20.

S&P 500



Our View

There are important meetings next week that investors will be focusing on. The G-20 finance ministers and central bankers meet in Argentina, while the Fed's Open Market Committee will be considering adjusting monetary policy in the United States. With the global growth forecast at a relatively robust 3.9% this year, some central banks are shifting their stance regarding accommodation. There is also concern over potentially rising trade tensions. Domestically, the focus will be on the Fed's commentary regarding projected conditions and the pace of future rate increases. It is widely expected that the Fed will increase the Fed Funds rate another 25 basis points. Although inflation gauges are continuing to drift higher with the core consumer price index at 1.8%, currently there is no significant upward pressure on inflation. Import prices have lifted due to dollar weakness, but the market's focus has been on wage growth. Many economists are surprised at the tepid wage increases that we have seen given an unemployment rate at 4.1% and an economy that has produced over 2.2 million jobs in the last 12 months. We believe there are a couple of plausible explanations. First, the expanding economy has brought disenfranchised workers back into the labor force helping to contain wage increases. The household survey indicated that the labor force rose by 806,000 leaving the unemployment rate unchanged. Second, there is anecdotal evidence that employers are using technology and lowering the labor component of their products. As labor market conditions tighten, we expect wage rates will move higher. It is very possible that higher wage costs will not be entirely passed on to consumers and corporate margins may get pinched.

COMING UP NEXT WEEK		Est.
03/21 Existing Home Sales	(Feb)	5.43M
03/21 Fed Funds Target Rate	N/A	1.625%
03/22 Markit Mfg PMI	(Mar)	55.5
03/23 Durable Goods	(Feb)	1.5%
03/23 New Home Sales – Units	(Feb)	0.620M