The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

August 18, 2017

As of 08/18/2017		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	21,674.51	-183.81	-0.84	2.32	9.67	16.54
S&P 500	2,425.55	-15.77	-0.65	2.02	8.33	10.90
NASDAQ 100	5,790.91	-40.62	-0.70	1.14	19.07	20.43
S&P MidCap 400	1,692.30	-18.75	-1.10	1.66	1.91	8.38
Russell 2000	1,357.79	-16.44	-1.20	1.48	0.04	9.77

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.31	Euro/Dollar	1.18	-0.49
5-Year	1.76	Dollar/Yen	109.17	-0.05
10-Year	2.20	Sterling/Dollar	1.29	-1.01
30-Year	2.78	Dollar/Cad	1.26	-0.91

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

In his Foreign Affairs article entitled "The Boom Was a Blip - Getting Used to Slow Growth," Ruchir Sharma describes why many of us who have come to expect high economic growth need to moderate our expectations. He discusses how prior to the Industrial Revolution the global gross domestic product (GDP) never exceeded 1%. It grew to 2.5% during the 1800s, and spiked to 4.0% during the decades following World War II. Since 2009, global GDP has been around 2.5% and most likely will not increase for the foreseeable future. This rapid increase and subsequent decline in global growth was the result of three changes: population growth, debt growth and global trade. After WWII, the annual rate of growth for global population doubled from 1% to 2%. Since 2005, the population growth rate has dropped back to 1% and most likely will continue to decline. In the late 1980s, aggregate global debt was 100% of global GDP – a "normal" balance for outstanding loans. Since then, global debt has increased to 300% of GDP, an untenable level. From 1980 to 2008, cross-border trade rose from 30% of global GDP to 60% and has since declined to 55% today. Sharma posits that with declining population growth rates, peak debt and moderating levels of trade, it may be unrealistic to expect global GDP growth to return to levels of the past.

Economy

The most anticipated economic report this week was the retail sales report, which was released on Tuesday. Retail sales increased 0.6% in July and are now up 4.2% year-over-year. The all important control category, which excludes food service, autos, gas and building materials, advanced by 0.6%. Retail sales figures were revised higher for both May and June. The best performing sector was online retailers, which increased by 1.3% in July. Overall, ten of thirteen major retail categories showed gains for the month. On Wednesday, housing starts declined for the fourth time in five months dropping by 4.8% to 1.155 million in July. Multifamily starts declined by 15.3% and are now down 33.7% year-over-year. Single family starts decreased by 0.5% but are up 10.9% year-over-year. The shift to single family is a positive sign for the economy because, on average, each single family home contributes to GDP twice the amount of multifamily. Industrial production figures were reported on Thursday and disappointed with a 0.2% decline in July. Manufacturing output also dropped, sliding by 0.1% with motor vehicles and parts production decreasing by 3.6% in July. Finally weekly jobless claims declined by 12,000 to 232,000 during the week ending August 12th. The four-week moving average is now at 240,500.

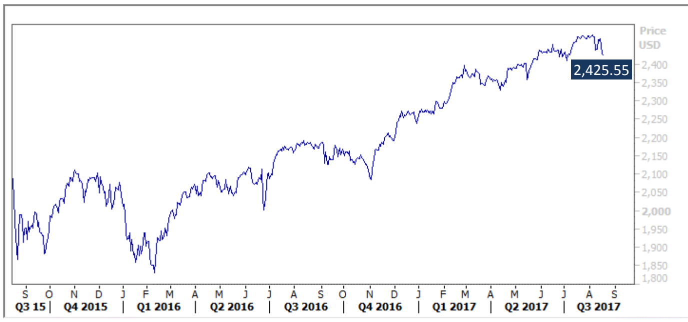
Fixed Income/Credit Market

This week, the U.S. Treasury curve flattened with the 2-year and 10-year Treasury spread decreasing approximately 1.2 basis points (bps) to close the week at 88.2 bps. Despite being marginally flatter, the U.S. Treasury curve was not devoid of volatility this past week. As the Dow Jones Industrial Average Index dropped 274 points on Thursday and capital flowed out of equities and into fixed income, the 10-year U.S. Treasury yield dipped back below 2.20%. Using U.S. ETF flows as a proxy, domestic equities had net flows of negative $1.34B as domestic fixed income had net flows of positive $1.15B, for the week. By Wednesday, the 10-Year U.S. Treasury Note Volatility Index (TYVIX) dropped roughly 9% from last Friday's close then reversed course and rose 4.71% to close the week at 4.22%. Week-over-week, the TYVIX was down 4.74%. The 2-year and 10-year tenors ended the week at approximately 1.31% and 2.20%, respectively.

Equities

On Monday, the equity markets rallied after concerns of a potential war with North Korea decreased and Japan reported GDP growth of 4%. Thursday's dramatic selloff saw the S&P 500 drop 1.54%, its second worst day of the year, and this intense selling spread to most international markets. The Dow Jones Industrial Average declined by 274 points on Thursday with all 30 components falling. The CBOE Volatility Index advanced by 32.4% on Thursday, reaching a high of 15.8%. This so called "fear" gauge is now up 10.8% year-to-date. The volatility continued on Friday with Chief Strategist Stephen Bannon being released from his duties. Once again, the utility sector was the best performing sector this week, advancing by 1.26%; the sector is now up 11.59% year-to-date. The energy sector bounced back nicely on Friday, increasing by 0.57% with WTI (oil) settling at $48.62.

S&P 500



Our View

Risk assets started the week on a positive note with North Korean tensions subsiding, however, volatility returned to the market on Thursday as terrorist attacks in Barcelona and dysfunction in Washington took center stage. Moreover, Trump's response to the violence in Charlottesville caused outrage across the country and led to the dissolution of two advisory groups that were designed to give corporate leaders a direct line to President Trump. Matters only intensified when rumors spread that Gary Cohn, the National Economic Council Director and key player in pushing forward potential tax reform, had resigned. This rumor was quickly discredited, but it left investors questioning the probability of Trump being able to pull through with his pro-growth policies. Another headline that caught our attention this week was that Mario Draghi will not discuss tapering the ECB quantitative easing purchase plan at Jackson Hole later this month and will wait to address the topic in the fall. Draghi's patience with regard to the tightening monetary policy fully aligns with our view that monetary policy normalization will evolve at an extremely slow pace and may slow further if political leadership cannot work together in a coordinated manner.

COMING UP NEXT WEEK		Est.
08/22 Philadelphia Fed Nonmanufacturing	(Aug)	16
08/23 New Home Sales	(Jul)	0.8%
08/24 Existing Homes Sales	(Jul)	5.57M
08/24 Initial Jobless Claims	(w/e Aug 14)	239k
08/25 Durable Goods	(July)	-5.5%