The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

June 22, 2018

As of 06/22/2018		Wk Net	Wk %	Div	YTD %	12 Mos %
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	24,580.89	-509.59	-2.03	2.20	-0.56	14.88
S&P 500	2,754.88	-24.78	-0.89	1.90	2.99	13.11
NASDAQ 100	7,197.51	-58.24	-0.80	0.94	12.52	24.53
S&P MidCap 400	1,989.61	-2.76	-0.14	1.51	4.68	14.58
Russell 2000	1,685.58	1.67	0.10	1.22	9.77	20.01

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	2.54	Euro/Dollar	1.17	0.38
5-Year	2.77	Dollar/Yen	109.96	-0.66
10-Year	2.89	Sterling/Dollar	1.33	-0.12
30-Year	3.04	Dollar/Cad	1.33	0.50

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

On Tuesday, State Street launched its new "Spider" exchange traded fund: The Communication Services Sector Fund. This fund was rolled out to represent, in advance, the new Communication Services sector that will be created in September as a result of the reconfiguration of industry classifications. Twenty-eight different large capitalization stocks in the United States will be impacted by these reclassifications. Currently, the Telecommunications Sector of the S&P 500 Index includes companies such as Verizon and AT&T. The sector will change its name to "Communication Services" and be expanded into a modern representation of the companies that inform, entertain and connect us today. Some companies that are currently considered information technology companies will be added. This will include interactive services companies like Alphabet (the parent of Google) and Facebook as well as home entertainment companies such as Activision. Other companies now considered consumer discretionary stocks will fall under the Communication Services sector as well. Movie and entertainment companies such as Netflix, Disney, Time Warner and Twenty-First Century Fox will be added as well as media companies such as Comcast. Finally, online marketplaces such as eBay will be shifted to the Consumer Discretionary sector. All of these changes are important because the classification of sectors directly impacts the composition of many exchange traded funds, and clients who own individual stocks will see their companies listed differently on their statements.

Economy

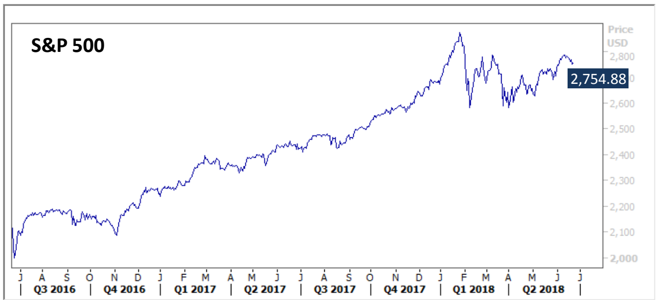
Economic data released this week generally proved to be a slight disappointment to investors. The week began with housing data for May. Although housing starts surpassed April's report of 1.29 million units, the print of 1.31 million units was below expectations. Existing homes sales also came in below consensus reporting 5.43 million units which is a modest decline from April's report of 5.46 million units. Initial jobless claims for June reported 218,000 slightly below expectations, but consistent with the data's reports since 1Q'15. Finally on Friday Markit PMI was released below consensus falling to 54.6 versus the prior month's level of 56.4. Despite Markit PMI dropping, any level above 50 indicates expansion.

Fixed Income/Credit Market

Over the last several months corporate bond liquidity has caused concern for many investors. Steadily rising interest rates, an abundance of issuance, and tapering of quantitative easing programs have raised fears of potential spread widening and a subsequent sell-off. Additionally, total dealer holdings of corporate bonds have dropped 90% since the financial crisis, according to Bloomberg. However, the consulting firm Tabb Group argues in a recent report that the decline of corporate bond positions on dealer balance sheets is much less dramatic than it seems due to the reclassification of corporate bonds since 2013. The Federal Reserve Bank of New York removed mortgage-backed securities without government backing from the corporate bond list. Among the top 20 corporate bond dealers, the decline in capacity is closer to 35% according to Tabb Group. Furthermore, the decline in holdings should be viewed positively because if a liquidity event were to occur, dealers now have the capacity to take on more risk during periods of greater price volatility.

Equities

Major equity indexes finished the week in the red putting the Dow Jones Industrial Average (DJIA) back into negative territory for the year. The declines can be largely attributed to growing trade tensions between the United States and China as President Trump threatened to impose tariffs on an additional $200 billion worth of Chinese goods, and China said that it would retaliate. Trade worries lingered throughout the week resulting in the DJIA posting eight consecutive days of losses, matching its longest losing streak since March of 2017. The Dow's poor performance was accompanied by an announcement on Tuesday that the last remaining original member of the index, General Electric, will be replaced by the drug store chain Walgreens Boots Alliance. On Wednesday, Walt Disney increased its offer for 21st Century Fox to $71.3 billion which was significantly higher than Comcast's offer last week. The bidding war is heating up, and it is expected that Comcast will counter with an even more attractive offer. The DJIA ended its losing streak on Friday as energy stocks rallied after OPEC reached a decision to increase oil production by 1 million barrels per day. On the week, Utilities sector was the best performing sector and the trade-sensitive Industrials sector was the worst performing sector.



Our View

Global equity markets have been flat to down since the tariff and trade policy discussion began at the end of February. Equity investor sentiment and the short-term trading pattern for stocks have been dominated over the last four months by the potential for an escalation of a trade war between the United States and our global trading partners. A leveling of unfair trade obstructions is desired, however to the extent the effort may cause an exacerbation and heightening of artificial trade cost that has real-world consequences, the trade strategy has significant risks. There are of course other concerns that investors need to consider. Central banks' policies will increasingly become less supportive of global economies as they normalize interest rates and their balance sheets. Corporate margins are likely to trend lower over the next few years as wage pressure, due to tight labor markets, and an increase in debt service from relatively high corporate debt levels begin to negatively impact earnings growth. These are secular issues that will likely dampen equity returns, bringing them below long-term historic averages. However, the fundamentals remain solid with positive economic momentum driving earnings growth. S&P 500 earnings are projected to grow 22.3% in 2018 and 9.7% in 2019, according to Lipper. With valuations less onerous (S&P 500 is trading at 16.9x FPE), we would expect equities to work higher assuming the trade issue recedes.

COMING UP NEXT WEEK		Est.
06/25 New Home Sales – Units	(May)	0.666M
06/26 Consumer Confidence	(Jun)	128.1
06/27 Durable Goods	(May)	-0.9%
06/28 GDP Final	(Q1)	2.2%
06/29 Consumption, Adjusted MM	(May)	0.4%

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