The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

April 21, 2017

As of 04/21/2017		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	20,547.76	94.51	0.46	2.37	3.97	14.27
S&P 500	2,348.69	19.74	0.85	1.98	4.92	12.32
NASDAQ 100	5,442.05	88.46	1.65	1.10	11.89	19.85
S&P MidCap 400	1,717.66	36.62	2.18	1.71	3.44	17.23
Russell 2000	1,379.85	34.61	2.57	1.45	1.72	21.55

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.18	Euro/Dollar	1.07	0.85
5-Year	1.76	Dollar/Yen	109.12	0.41
10-Year	2.24	Sterling/Dollar	1.28	2.19
30-Year	2.90	Dollar/Cad	1.35	1.30

Source: Thomson Reuters

What Caught Our Eye This Week

On Sunday, Turkey's President Recep Tayyip Erdogan won a highly-contested referendum with 51.2% of the vote, solidifying his increasing personal power in the government. Turkey is at the crossroads between Europe and the Middle East. It has a population considerably larger than that of France and the United Kingdom, and its $857 billion economy is larger than that of the Netherlands and Switzerland. Turkey is a member of NATO, an active combatant against Islamic State, and one of our key allies helping to control the flow of refugees into Europe from Syria. Erdogan's narrow victory eliminates the position of prime minister, and it consolidates power in the presidency where Erdogan can now remain for at least the next 12 years. He will have greater influence over judicial appointments; he will be able to issue decrees; and he will have the power to appoint cabinet members without legislative approval. This is in addition to the state of emergency that he instituted since the attempted coup last July which was aimed at toppling his presidency. Since then, his regime has arrested over 40,000 people, fired over 120,000 government employees, shut down nearly 140 news organizations, and imprisoned countless opponents. These events will be scrutinized for political and economic ramifications.

Economy

The highlight this week was Friday's release of the March existing home sales data. Existing home sales increased 4.4% to 5.71 million in March, which exceeded expectations. These figures have now hit a cycle high, and year-over-year these numbers have increased by 5.9%. Housing inventory has dropped for 22 straight months on an annual basis, and the median house price has advanced by 6.8%. Home prices have now increased for 61 consecutive months. On Tuesday, monthly housing starts declined by 6.8% to 1.215 million in March. Over the last 12 months, housing starts have increased by 9.2%. The best news in this report was permits for single family units are now up 13.5% year-over-year. Also on Tuesday industrial production increased by 0.5% in March with utility output leading the way, advancing by 8.7%. Manufacturing was down 0.4% and auto production declined by 2.9%. Capacity utilization increased to 76.1% in March, and oil and gas well drilling posted its 10th consecutive monthly advance. On Thursday, the Philadelphia Fed manufacturing survey fell 10.8 points to 22.0 in April. The ISM-weighted composite also declined, falling to 60.2. Finally, weekly jobless claims increased by 10,000 to 244,000 during the week ending April 15th.

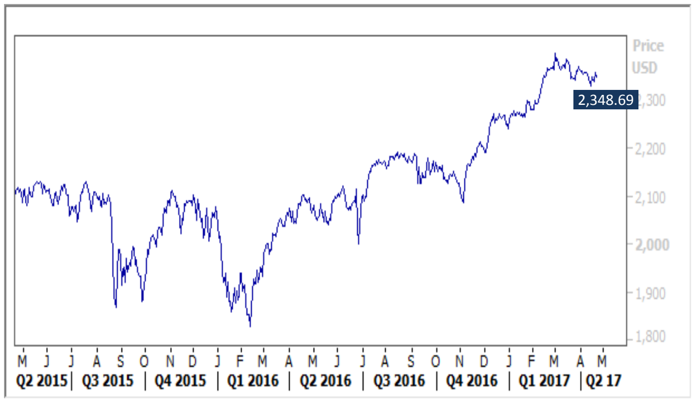
Fixed Income/Credit Market

This past week, interest rates across the U.S. Treasury curve changed directions dramatically without any particular news event as a catalyst. The sharpest change came on Tuesday when the belly of the curve compressed 7.6 basis points (bps) and 8.2 bps at the 5-yr and 7-yr tenors, respectively. The 10-year Treasury yield closed at 2.169%, its lowest closing level in 2017. Currently the benchmark is trading at a yield of 2.25%. On Thursday, the U.S. government sold $16B 5-yr Treasury Inflation Protected Securities (TIPS) drawing the lowest bid-to-cover ratio since August 2016, an indication that inflation fears have slightly subsided. The U.S. 5-yr breakeven inflation rate is now approximately 1.77% after reaching a year-to-date high of 2.06% on February 2nd. Credit spreads on investment grade bonds were stable this week with the 5-yr AA, A and BBB-rated composites widening 1 basis point at the most. In the high yield sector, the 5-yr BB and B-rated composite spread are lower by 4.7 and 7.0 bps, respectively, on the week.

Equities

It was a busy week for the equity market, with an increase in corporate reporting and continued geopolitical tensions. Approximately 20% of the S&P 500 companies have reported as of this week and about half of the companies will have reported by the end of next week. So far the results have been respectable, with 71% beating revenue estimates and 82% beating earnings estimates. Despite the generally favorable business environment, markets remained relatively range bound due to investor caution for the first round of French elections this Sunday in addition to other on-going geopolitical concerns such as North Korea and trade rhetoric. Oil dropped below $50 this week and led to weakness in the energy stocks, yet that was the only negative sector of the S&P 500. The small capitalization index was one of the best performers of the equity market this week.

S&P 500



Our View

First quarter GDP expectations continue to drift lower as economic releases indicate the U.S. economy softened at the beginning of the year. The Atlanta Fed has an econometric model they update as economic statistics are released. That model suggests the economy grew a negligible 0.45% in the first quarter. There are also a number of indexes we track that examine economic surprises and have some predictive value for future economic releases. These surprise indexes point toward continuing weakness into the current quarter. Despite the tepid beginning to 2017, the Fed appears to be committed to at least two more rate hikes this year. Fed officials speaking at public events have been consistent and firm in their intention to raise rates. It would be difficult for them to reverse course without eroding credibility. Investors remain skeptical as "Fed funds" futures suggest that there is only one more increase likely in 2017. The Fed has a history of not delivering on rate hikes due to economic weakness and financial market instability. We expect them to deliver on at least another hike given the recent resilience of the financial markets and better economic strength in Europe. In the meantime, the markets will be focused on the French election this weekend that could spark some near-term volatility.

COMING UP NEXT WEEK		**Est.**
04/25 CaseShiller 20 MM SA	(Feb)	0.6%
04/25 Consumer Confidence	(Apr)	122.0
04/27 Durable Goods	(Mar)	1.2%
04/27 Durables Ex-Transport	(Mar)	0.4%
04/28 Chicago PMI	(Apr)	56.2
04/28 U Mich Sentiment Final	(Apr)	98.0