The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

June 9, 2017

As of 06/09/2017		Wk	Wk		YTD	12 Mos
STOCKS	Close	Net Change	% Change	Div Yield	% Change	% Change
DJIA	21,271.97	65.68	0.31	2.34	7.64	18.27
S&P 500	2,431.77	-7.30	-0.30	1.95	8.61	14.95
NASDAQ 100	5,741.94	-139.51	-2.37	1.09	18.06	27.24
S&P MidCap 400	1,757.54	6.43	0.37	1.69	5.84	15.55
Russell 2000	1,421.71	16.32	1.16	1.44	4.70	20.29

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.33	Euro/Dollar	1.12	-0.79
5-Year	1.77	Dollar/Yen	110.25	-0.16
10-Year	2.20	Sterling/Dollar	1.27	-1.17
30-Year	2.86	Dollar/Cad	1.35	-0.18

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

Total household debt reached a new peak in the first quarter of 2017, rising by $149 billion to $12.7 trillion. This is $50 billion above the previous peak reached in the third quarter of 2008. Student loan debt ($1.44 trillion) is the second highest consumer debt category - behind mortgage debt (approx. $9 trillion). Approximately 44 million Americans hold student loans today. As student debt has risen, so too have delinquencies which increased 17% in 2016 from 2015. Student loans differ from other forms of consumer credit in that they cannot be expunged in bankruptcy proceedings. There can be long lasting financial ramifications. A borrower's personal financial decisions affect our consumer-based economy (70% of our GDP). Student debt can negatively impact a person's credit and prevent them from qualifying for other loans. This in turn can influence not only the housing market but also could impact general spending on goods and services. In addition, student debt can affect both the savings rate and retirement savings.

Economy

The economic calendar was a bit light this week, but on Monday we did receive some negative news with the release of the ISM non-manufacturing index. This closely-followed service sector index declined from 57.5 in April to 56.9 in May. There were also declines in the business activity index (62.4 to 60.7) and the new orders index (63.2 to 57.7). Overall 17 of 18 industries reported growth in May, but this deterioration is worth watching as this economic expansion enters its later years. On Tuesday, the JOLTS report (Job Openings and Labor Turnover Survey) showed job openings reaching a series high of 6 million. The hires rate was 3.5%, and the "quits" rate remained at 2.1%. Over the last 12 months, the U.S. economy has yielded a net employment gain of 2.2 million jobs. On Thursday, we were pleased to see weekly jobless claims decline by 10,000 to 245,000 during the week ending June 3rd. The four-week moving average is now at 242,000. Consumer credit data was reported on Wednesday and showed a 2.6% year-over-year increase in April, which happens to be one of the weakest monthly increases in recent years. This moderating trend is mostly tied to non-revolving credit.

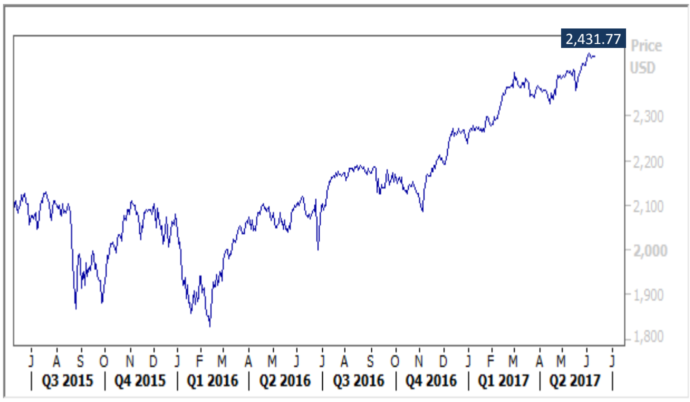
Fixed Income/Credit Market

The U.S. Treasury market experienced weaker demand this week, which caused yields to increase approximately 4 to 6 basis points between the 1 to 30-year tenors. The sell-off is not surprising given the implied probability of the Fed raising rates at next week's meeting is 94.8% and new supply of $56 billion is coming in the form of 3, 10 and 30-year Treasuries that will be auctioned between Monday and Tuesday. Looking at investment grade credit spreads, the rally continued this week with the option adjusted spread (OAS) compressing an additional basis point to 115 bps. Investors appear to be in a risk-on mood considering that the investment grade OAS is now trading approximately 8 bps below its 5-year median. The risk-on mood is even more apparent in the high yield fixed income sector with the current high yield OAS trading roughly 70 bps below its 5-year median of 460 bps.

Equities

With this week's spotlight on the mid-week testimony by ex-FBI Director James Comey and the U.K General election, equities generally held steady in the early week. Despite the drama of both events, markets seemed to shrug off the outcomes, suggesting that the broad markets may be slowly detaching from the political discord. That said, there was plenty of price action within the sectors. On the negative side, growing oil supplies continued to push prices lower and therefore the energy sector hit new lows for the year. Also during the week, interest rates started to inch back up, leading to weakness in the utilities sector and strength in the financial sector. The most action was witnessed in the technology sector, with the group hitting new highs towards Thursday. However, by Friday, the tech momentum lost its fuel and turned sharply negative on high volume, with the NASDAQ trading volume about 68% above its 90-day average.

S&P 500



Our View

The equity market has been a very pleasant surprise for most investors this year. Few market pundits expected the market to be as strong as it has been in the first half of 2017. There is clearly an element of disbelief on the part of some investors. That is partially related to the divergence within the market. Investors with a value orientation have not experienced the same ebullient market as have investors that concentrate on growth opportunities. Through May, the Russell 1000 Value index is up only 1.9% versus the Russell 1000 Growth index which has rallied 13.6%. That is a striking divergence. The difference is largely related to the strength of five large technology stocks (Facebook, Apple, Amazon, Microsoft and Alphabet). Collectively, these five stocks have accounted for an astounding one-third of the gain for the S&P 500 (YTD). Return clustering in a handful of names has occurred four other times in the last 20 years. We would be more comfortable to see a broader-based market advance.

COMING UP NEXT WEEK		**Est.**
06/14 Retail Sales MM	(May)	0.1%
06/14 Retail Control	(May)	0.3%
06/14 Fed Funds Target Rate	N/A	1.125%
06/15 Industrial Output MM	(May)	0.2%
06/15 Capacity Utilization MM	(May)	76.8%
06/16 Housing Starts Number MM	(May)	1.210M
06/16 U Mich Sentiment Prelim	(Jun)	97.0

For more information about our products: http://pgbank.com