The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

July 7, 2017

As of 07/07/2017		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	21,414.34	64.71	0.30	2.33	8.36	19.66
S&P 500	2,425.18	1.77	0.07	2.01	8.31	15.59
NASDAQ 100	5,656.47	9.55	0.17	1.14	16.30	26.84
S&P MidCap 400	1,747.36	0.71	0.04	1.71	5.23	17.07
Russell 2000	1,415.84	0.48	0.03	1.43	4.35	23.17

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.40	Euro/Dollar	1.14	-0.27
5-Year	1.95	Dollar/Yen	113.89	1.32
10-Year	2.39	Sterling/Dollar	1.29	-1.14
30-Year	2.93	Dollar/Cad	1.29	-0.69

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

On Tuesday, North Korea successfully launched its first intercontinental ballistic missile able to travel between 4,100 – 4,900 miles. The possibility of being able to accurately deliver a nuclear strike will provide North Korea with a disproportionate level of power and prestige. Today, the country is playing on the global stage, yet it has an economy materially smaller than the state of Vermont - America's smallest. For the U.S., a preemptive military option is off the table. This is an example of a classic Pascal's wager scenario – where an action could produce modest benefits but at the same time introduce potentially catastrophic consequences. Seoul, a city of 10.2 million people (20% larger than the New York metro area), is within 35 miles of the border with North Korea. North Korea currently has approximately 15,000 artillery pieces and rocket launchers aimed at Seoul and ready to fire. This is precisely why neither the current U.S. administration nor the past four administrations have been able to convince North Korea to alter the course of its nuclear program. China, which handles 90% of North Korea's trade, seeks the status quo principally because North Korea serves as a buffer between it and the U.S. military stationed in South Korea. China continues to be unwilling to cease all trade with its recalcitrant neighbor.

Economy

The best news this week came on Friday with the release of the June nonfarm payroll report. This report showed payrolls increasing by 222,000, which easily surpassed the consensus figure of 179,000. The unemployment rate inched up to 4.4% and the U-6 measure of unemployment is now at 8.6%. Average hourly earnings increased by 4 cents and are now up 2.5% year-over-year. Examining the different employment sectors, healthcare added 37,000 jobs and construction added 16,000. The labor force participation rate increased to 62.8%, which is low by historical standards. The best news was the positive revisions to the April and May payroll reports totaling 47,000. Employment growth has accelerated over the past three months to an average of 194,000 new jobs created. In other news this week, the ISM Manufacturing survey increased to 57.8 in June, and the forward looking new orders index increased to 63.5. On Thursday the ISM Nonmanufacturing survey displayed similar increases with the headline figure increasing to 57.4, and the new orders index reaching 60.5. Finally, weekly jobless claims increased by 4,000 to 248,000 during the week ended July 1. The four-week moving average is now at 243,000.

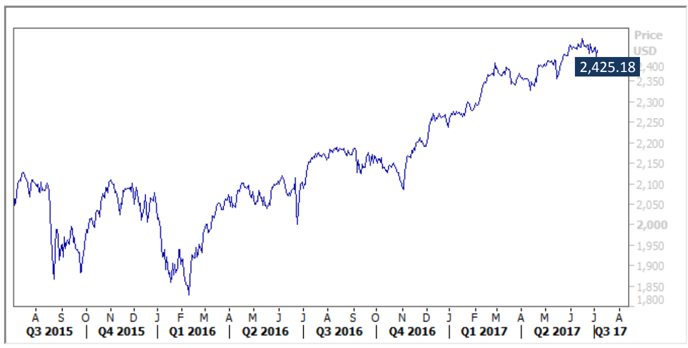
Fixed Income/Credit Market

Fixed income performance for the second quarter of 2017 was positive in all the sectors that we follow excluding TIPS (Treasury Inflation-Protected Securities). With the back-end of the U.S. Treasury curve compressing 17.5 basis points (bps) on the quarter, long-duration U.S. Treasury bonds were the top performing asset class returning 4.44%. Around the globe, quantitative easing programs continued to facilitate positive returns and international treasury bonds (non-currency hedged) returned 3.72% in the second quarter. Other sectors that performed well were preferred equity and intermediate-term U.S. Treasury bonds which returned 2.67% and 1.76%, respectively. TIPS and short-duration U.S. Treasury bonds were the worst performing asset classes returning -0.46% and 0.20%, respectively. This was not surprising seeing that inflation fears all but left the marketplace as the U.S. 5-Year Breakeven Inflation rate compressed approximately 29 bps to end the quarter at 1.66%. The front-end of the U.S. Treasury curve saw interest rates increase 21.1 bps and 12.8 bps at the 1-yr and 2-yr tenors, respectively. The 10-yr Treasury closed this week at 2.39%.

Equities

Today's strong jobs number helped lift the equity market back from yesterday's decline. On Thursday, the S&P 500 Index had its worst day since May 17th but bounced back to close relatively flat for the week despite the volatility. Today's rally was driven by Information Technology and Industrials. Year to date, the S&P 500 has appreciated 8.31%. The Energy sector has been the worst performing sector this year, down roughly 15%. The Energy sector's underperformance is based on oil prices continuing to decline due to an oversupply in the market. Every other sector is in the black for the year with Health Care, Information Technology, and Industrials leading the way. For the week, Financials led the index following last Friday's news that all 34 banks passed the Fed's stress test allowing them to increase dividends and move forward with share buybacks. Financials have also benefited from the recent rate hike. The Utility sector, negatively correlated to rates, was down 89 bps for the week. The market continues to trade around all-time highs as we anticipate the release of next week's economic data, specifically initial jobless claims, Consumer Price Index, and retail sales.

S&P 500



Our View

Investors had the opportunity to review and digest minutes from the last Federal Reserve Open Market Committee meeting in June. Coincidentally, the European Central Bank released their minutes as well this week. The impression we were left with, both from reading the minutes and from recent comments by global central bankers, is that central bankers are becoming increasingly focused on balance sheet and rate normalization. There appears to be a shift in the mindset. The Fed has already raised rates 3 times in the past 7 months, and despite weaker than expected economic growth and eroding domestic inflation forecasts, the Fed clearly seems committed to continuing the process of normalization. The Fed believes the economic softness is transitory. They received some evidence to support this view with a relatively strong employment report on Friday. The change in sentiment regarding additional accommodation from central bankers will be a headwind to both the bond and equity markets.

COMING UP NEXT WEEK		**Est.**
07/10 Consumer Credit	(May)	12.70B
07/14 CPI MM, SA	(Jun)	16.80M
07/14 Retail Sales MM	(Jun)	0.1%
07/14 Retail Control	(Jun)	0.3%
07/14 Industrial Output MM	(Jun)	0.3%
07/14 Capacity Utilization MM	(Jun)	76.7%
07/14 U Mich Sentiment Prelim	(Jul)	95.0

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