The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

July 14, 2017

As of 07/14/2017

STOCKS	Close	Wk Net Change	Wk % Change	Div Yield	YTD % Change	12 Mos % Change
DJIA	21,637.74	223.40	1.04	2.30	9.49	16.92
S&P 500	2,459.27	34.09	1.41	1.98	9.84	13.65
NASDAQ 100	5,838.08	181.61	3.21	1.11	20.04	27.01
S&P MidCap 400	1,765.32	17.96	1.03	1.71	6.30	14.33
Russell 2000	1,428.82	12.98	0.92	1.41	5.27	18.83

TREASURIES	Yield	FOREX	Price	Wk %Change
2-Year	1.36	Euro/Dollar	1.15	0.57
5-Year	1.87	Dollar/Yen	112.53	-1.21
10-Year	2.33	Sterling/Dollar	1.31	1.59
30-Year	2.92	Dollar/Cad	1.27	-1.77

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

European businesses are on a solid growth trajectory. Although we will not know its Q2 gross domestic product (GDP) until it is released on August 1st, the European Union (EU) Q1 GDP growth was a solid 2.0%, and it is expected to remain near the same level for the remainder of this year. Compared with the U.S., the 28-country trading block has consistently reported stronger manufacturing and business conditions since the beginning of this year. Unemployment in the EU is higher than that in the U.S., but it has been declining for four years, and in some countries like Germany and the United Kingdom, it is comparable to ours. Europeans also have a very sanguine outlook for the future. According to consumer confidence measures, European consumers are more optimistic with respect to the economy than they have been in over 16 years. Additionally, since the beginning of the year, European stock indices are now outpacing that of the United States for the first time in five years. This relative strength reflects the anticipation of continued strong earnings growth over the next couple of years.

Economy

This week all of the significant news was released on Friday. The retail sales data came in well below expectations with a decline of 0.2%. The all important control category, which excludes food service, autos, gas and building materials, was down 0.1%. The headline figure was held down by a 1.3% decline in sales at gas stations, and the non-store retail category only advanced by 0.4%. Also, on Friday, the consumer price index registered no change in June and is now up 1.6% year-over-year. The "core" CPI advanced by 0.11% and is up 1.7% year-over-year. This closely watched metric is still well short of what would be consistent with the Fed's inflation objective. The good news on Friday was industrial production figures which came in better than expected rising by 0.4% in June, while manufacturing output advanced by 0.2%. Earlier in the week, the JOLTS report (Job Openings and Labor Turnover Survey) showed job openings declining by 301,000 to 5.7 million. The "quits" rate increased to 2.2%, and the 12 months employment gain is now at 2.4 million. Finally, the weekly jobless claims numbers declined by 3,000 to 247,000 during the week ending July 8th. The four-week moving average is now at 246,000.

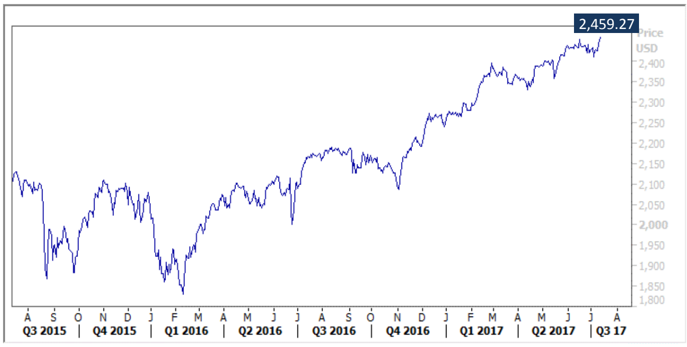
Fixed Income/Credit Market

On Wednesday, yields across the U.S. Treasury curve decreased after Fed Chair Yellen stated in her testimony that the FOMC would consider changing the course of monetary policy if inflation persists below the targeted 2% for a prolonged period of time. However, inflation has remained below 2% for approximately eight years with the exception of four months in 2012. Despite that, the Fed has lifted interest rates 25 basis points (bps) four times since December 2015. As long as the Fed's inflation forecast remains at 2%, they will attempt to normalize rates. Furthermore, Chair Yellen stated that downward pressure can be applied to interest rates by discontinuing the Fed's balance sheet reduction and purchasing debt again. On the week, the yield curve compressed roughly 2 bps as both long and short tenors rallied. At the long end of the curve, 10-year Treasury yields dropped over 5 bps to 2.33%.

Equities

The market drove to record levels this week as the Fed took center stage. Unfolding political narratives surrounding the Trump administration earlier in the week briefly destabilized the broad market. However, the weakness was very short lived when Fed Chair Janet Yellen's Congressional testimony comments were perceived as dovish. The market moved broadly higher with most sectors experiencing Fed lift and even the fragile energy sector gained for the week. International markets were also boosted by central bank enthusiasm, with developed overseas markets hovering towards earlier highs and emerging markets moving towards new highs. Some large banks reported results this week, and despite appearing in line with expectations, financials experienced weakness. Next week, the earnings reporting picks up and will shed new data points of corporate business conditions.

S&P 500



Our View

Earnings reports for the second quarter are just beginning. It is broadly expected that earnings momentum in the second quarter will continue after a very strong first quarter of greater than 10% earnings growth. According to Zacks Investment Research, total 2Q earnings are expected to be up 5.6% versus a year ago on 4.6% revenue growth. Analysts expect earnings in energy and industrial sectors to be especially strong as they continue to recover. Technology companies should continue to post strong relative earnings as well. Given the competitive disruption caused by internet retailing and a weakening in automotive sales, earnings in the consumer discretionary sector will probably show some deterioration. Speaking broadly, domestic growth is sufficiently strong to allow for modest earnings expansion for the domestic equity market. We would not expect significant multiple expansion in a moderately rising rate environment, so solid earnings growth is extremely important to drive the equity market higher.

COMING UP NEXT WEEK		Est.
07/17 NY Fed Manufacturing	(Jul)	15.00
07/19 Housing Starts Number MM	(Jun)	1.150M
07/20 Initial Jobless MM	(Jul)	245k
07/20 Philly Fed Business Index	(Jul)	24.7
07/20 Leading Index Chg MM	(Jun)	0.4%

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