The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

February 24, 2017

As of 02/24/2017		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	20,821.76	197.71	0.96	2.32	5.36	26.31
S&P 500	2,367.34	16.18	0.69	1.99	5.72	22.65
NASDAQ 100	5,343.31	18.59	0.35	1.15	9.86	27.20
S&P MidCap 400	1,736.68	1.92	0.11	1.63	4.58	31.58
Russell 2000	1,394.52	-5.34	-0.38	1.40	2.75	36.44

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.14	Euro/Dollar	1.06	-0.57
5-Year	1.81	Dollar/Yen	112.14	-0.67
10-Year	2.31	Sterling/Dollar	1.25	0.31
30-Year	2.95	Dollar/Cad	1.31	0.00

Source: Thomson Reuters, Bloomberg

What Caught Our Eye This Week

Upcoming European elections could prove to be as tumultuous as our own presidential election this past November. On March 17th, the Netherlands will hold elections for members of their house of representatives and their president. Tapping into voters' disillusionment with the ruling elite and the status quo, Geert Wilder's far-right Party for Freedom is leading the polls. He represents a staunchly anti-European Union, anti-Islam, anti-immigration platform, advocating banning the Qur'an and closing all the mosques. On April 23rd, the first round of French presidential elections will take place. Leading the polls is Marine Le Pen who proposes that France should discontinue using the euro, exit NATO and severely limit immigration. Recent polls suggest that she will win the first round election but lose the May 7th runoff election to Emmanuel Macron (most likely), a centrist newcomer to politics, or possibly François Fillon, a center-right candidate. Finally, on September 24th, Germany will hold elections for the Bundestag (German Parliament) and the chancellorship. Angela Merkel, a pro-European pragmatic centrist who is running for her fourth term as chancellor, has lost some support due to her unpopular decision to open up Germany's doors to immigration. Because of this, she is running neck and neck in polls with Martin Schulz, the former European Parliament president and orthodox social democrat.

Economy

The economic calendar was a bit light this week, but overall the data continues to be positive. The best news came on Wednesday with the release of the existing home sales report. Existing home sales for January increased 3.3% to 5.69 million, easily surpassing consensus figures of 5.55 million. This is now a new high for the cycle, and overall sales are up 3.8% year-over-year. The median price of an existing home is now $228,900, and this metric has increased 7.1% over the past 12 months. Inventories have now fallen on a year-over-year basis for 20 consecutive months. On Thursday, initial jobless claims increased 6,000 to 244,000 during the week ending February 18th. The four-week moving average is now at 241,000, a new best for the cycle. Also on Thursday the FHFA house price index showed a 0.4% increase in December, and is now up 6.2% year-over-year. This small advance was a bit shy of expectations, but home prices continue to appreciate at a solid pace. Finally on Friday new home sales were reported for January, and these figures increased by 3.7% to 555,000. These numbers did come in below expectations of 571,000, but overall new home sales have increased by 5.5% from a year ago.

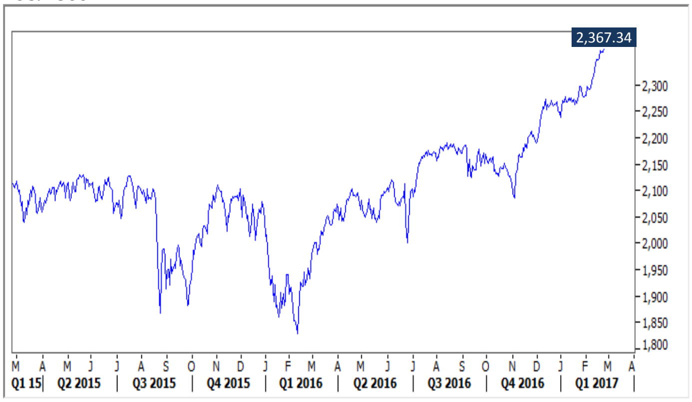
Fixed Income/Credit Market

Following the immediate post-election sell-off, the 10-year Treasury has been trading in a 2.30% to 2.60% range since November 17th. Week over week, yields across the UST curve have compressed approximately 4 to 10 basis points, pushing the 10-year tenor to the lower end of that trading range. Yields are currently at their lowest levels since February 9th when President Trump pledged to reveal a tax plan within a few weeks. That promise is still unfulfilled and rates continue to decline. The Fed is currently sticking with its forecast to raise rates three times and the implied probability of a March hike is at 36%. However, The Fed Funds Future Implied Rate for December is at 110 basis points which is more indicative of two 25-bp rate hikes. The 2-year and 10-year Treasuries close the week at roughly 1.14% and 2.31%, respectively.

Equities

Stocks this week remained near record highs. The Dow Jones Industrial Average hit daily highs for the past 10 sessions, which was the longest period in over 30 years. The market focus mid-week was on the release of Fed minutes, looking for new indications of the magnitude and timing of additional rate increases. Despite the minutes indicating a rising probability of a rate increase at an earlier time, markets had little reaction. Political concerns overseas created some market jitters toward the end of the week and contributed to a rise in bond demand and the associated dip in interest rates. The moderately lower interest rates lifted interest sensitive stocks and resulted in Utilities being the best performer for the week. Ample U.S. crude inventories weighed on energy stocks and energy was the weakest market sector, which has been a general trend since the start of the year.

S&P 500



Our View

We are all aware that the U.S. Equity markets have been on fire with the S&P 500 increasing by 5.25% year to date. Less apparent is the fact that the 10-Year Treasury has also advanced in value with its yield declining from 2.45% to 2.31% over the same period. This is somewhat unusual as these two asset classes tend to be negatively correlated. We think the current relationship may be routed in a difference in the timing of current market expectations. Since last November's presidential election, stock investors have been focused on the prospects of a dramatic increase in GDP and corporate earnings growth resulting from fiscal spending policies, tax reform and the relaxation of various business regulations. The bond market is not totally discounting these potential growth catalysts as rates overall have risen since Trump was elected President, although signaling it may take longer than expected to become reality. This week, Treasury Secretary Mnuchin acknowledged that his goal for significant tax reform by August was ambitious. Furthermore, Arios Media cited Republican sources saying infrastructure could fall into 2018 because of prioritization of healthcare changes, immigration policies and regulatory reform.

COMING UP NEXT WEEK		Est.
02/27 Durable Goods	(Jan)	1.6%
02/28 GDP 2nd Estimate	(Q4)	2.1%
02/28 CaseShiller 20 MM SA	(Dec)	0.7%
02/28 Chicago PMI	(Feb)	53
03/01 Personal Income MM	(Jan)	0.3%
03/01 Consumption, Adjusted MM	(Jan)	0.3%
03/01 ISM Manufacturing PMI	(Feb)	56.3
03/03 ISM N-Mfg PMI	(Feb)	56.2

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