The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

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As of 05/18/2018		Wk Net	Wk %	Div	YTD %	12 Mos %
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	24,715.09	-116.08	-0.47	2.18	-0.02	19.61
S&P 500	2,712.97	-14.75	-0.54	1.91	1.51	14.73
NASDAQ 100	6,866.25	-86.31	-1.24	0.99	7.35	22.04
S&P MidCap 400	1,943.37	4.28	0.22	1.54	2.25	14.65
Russell 2000	1,626.63	19.84	1.23	1.26	5.93	19.51

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	2.54	Euro/Dollar	1.18	-1.52
5-Year	2.89	Dollar/Yen	110.76	1.23
10-Year	3.06	Sterling/Dollar	1.35	-0.47
30-Year	3.20	Dollar/Cad	1.29	0.59

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

This week the Supreme Court cleared the way for states to legalize sports betting ending a ban (except for Nevada) that had been in place since 1992. Several states have already passed legislation in advance of the ruling and about 20 more have bills in the legislature. Legal forms of betting (casino gambling and horse racing) are a $28 billion industry and adding sports betting could boost that by an estimated $41 billion. According to the American Gaming Association, sports betting would only net state governments about $3.4 billion in revenue. Unfortunately, that revenue pales in comparison to the $2 trillion states collectively spent last year. How much potential revenue each state would draw is unclear. It depends on the rate the state taxes the ‘hold’ (the money the bookmaker or the house retains after all bets have been settled). Nevada taxes this at 6.75% and it is expected that other states will levy a tax between 6.75% and 10%. In Nevada, sports betting brings in 2% of the state’s overall gaming revenue. In 2017, $4.8 billion was wagered and the state’s sportsbook won a record $248.7 million. In the end, it is a complicated revenue picture that is unlikely to have an impact on state budgets.

Economy

The most anticipated report this week was the retail sales report, which was released on Tuesday. Retail sales increased 0.3% in April and are now up 4.7% year-over-year. The all important control category, which excludes food service, autos, gas and building materials, advanced by 0.4%. Overall the gain in sales was led by non-store retailers, and nine of 13 major categories moved higher. It now appears that real consumption for the second quarter is tracking 2.5% annualized growth. On Wednesday, monthly housing starts were reported and showed a decline of 3.7% in April to 1.287 million units at an annual rate. Over the past 12 months, housing starts are up 10.5%. Single family starts increased 0.1% in April and single family permits advanced by 0.9%. Single family homes contribute significantly more to GDP data than does multifamily. Also on Wednesday industrial production figures rose 0.7% in April, which was better than expected. Manufacturing increased by 0.5% and capacity utilization rose to 78.0%. The best news was the production of high tech equipment advanced by 0.8% and is now up 6.1% year-over-year. Finally, on Thursday, weekly jobless increased by 11,000 to 222,000 for the week ending May 12th.

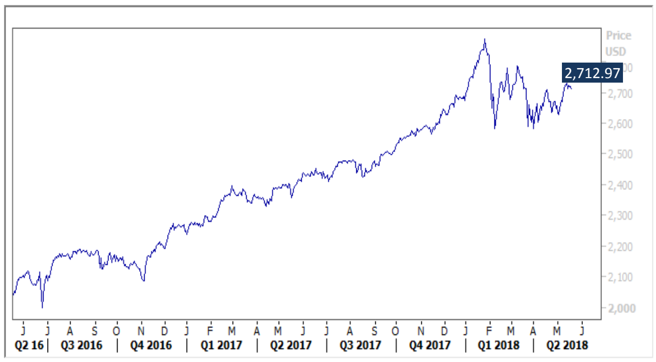
Fixed Income/Credit Market

The abrupt rise in LIBOR (London Inter-bank Offered Rate) since the end of 2017 has been making headlines this year because the benchmark rate for short-term bank borrowing has far reaching implications. The benchmark has approximately $350T worth of assets currently fixed to it and in 2018 alone, the 3-month tenor has increased approximately 64 basis points (bps) to 2.33%. A drastic rise in LIBOR is often indicative of financial stress in the marketplace, particularly in the banking industry. However, the recent spike can be attributed to technical factors as opposed to fears of adverse financial conditions. In the U.S., the Fed’s monetary tightening and an abundance of U.S. Treasury short-term debt supply has fueled a rise in short-term interest rates. For investors who remain cautious of duration risk, floating rate debt pegged to LIBOR offers a great opportunity to capitalize on shorter-duration assets as long as the discount margin is in line with the bond’s liquidity profile and credit quality.

Equities

Large cap equity indexes were modestly lower this week as investors continued to grapple with higher bond yields and trade talks with China. The small cap Russell 2000 continued to rally and reached a record high this week. Oil rose again, with West Texas Intermediate crude prices topping $70 per barrel. Falling output from Venezuela and Angola combined with concern over a potential sanction against Iran factored into the price of crude. Iran produces over three million of the 98 million barrels of the daily global production. The increase in oil prices has improved sentiment toward energy stocks. The energy sector continued to rally lifting over 1.5% on the week. Weakness in semiconductors contributed to a broad decline in the technology stocks as the S&P 500 technology sector dropped at 1.4%. Rising interest rates negatively impacted interest-rate sensitive sectors. Real estate and utilities fell 3.06% and 2.74%, respectively.

S&P 500



Our View

The equity markets were an absolute rollercoaster in the first quarter. Since the S&P 500 made a double-bottom at the 2580 level in early April, the broad market index has established a trading range between 2625 and 2780. Within the trading range, the S&P 500 has been volatile, and leadership appears to be more dispersed and less well-defined. The S&P 500 is down 5.6% from its January high. Lost on many investors is the underlying strength in the small cap stocks which made a new all-time high on Friday. Small cap stocks are benefiting from a handful of macro tailwinds. First, the Trump administration has placed significant emphasis on reducing regulation. The cost of meeting arduous regulatory mandates is disproportionally burdensome for smaller companies that have a lower revenue stream to support the added costs. Second, the tax reform bill should be more helpful to smaller companies. Generally, smaller cap companies are less able to shelter earnings from taxes. Finally, smaller companies that have less critical international business operations are more insulated from the uncertainty created by recent trade negotiations. Although valuations are not overall compelling for the small cap segment of the market, the divergence between small caps and their large cap brethren could continue for a while. Historically, small cap stocks have typically outperformed after the economic cycle has bottomed and during the initial phase of rising interest rates.

COMING UP NEXT WEEK		Est.
05/23 Existing Home Sales	(Mar)	5.54M
05/24 Consumer Confidence	(Apr)	126.0
05/26 Durable Goods	(Mar)	1.6%
05/26 Durables Ex-Transport	(Mar)	0.5%
05/27 GDP Advance	(Q1)	2.0%
05/27 U Mich Sentiment Final	(Apr)	98.0