As of 12/01/2017  Wk Wk YTD 12 Mos
STOCKS Close Net %Change %Change Div Yield %Change %Change
DJIA 24,231.59 673.60 2.86 2.15 22.61 26.26
S&P 500 2,642.22 39.80 1.53 1.91 18.02 20.59
NASDAQ 100 6,337.87 71.41 -1.11 1.06 30.31 33.88
S&P MidCap 400 1,894.58 35.39 1.90 1.55 14.09 16.71
Russell 2000 1,537.02 17.86 1.18 1.34 13.26 16.99

What Caught Our Eye This Week
Last week, the Chairman of the Federal Communications Commission (FCC) publicly released his plans to roll back “net neutrality” rules established in 2015. Net neutrality defines the principle that companies which sell internet service, such as Comcast, Charter, AT&T and Verizon, must make its connections similar for any organization or individual. Net neutrality rules ensure that these internet service providers (ISPs) cannot block access to a website, cannot charge for faster access speeds, cannot affect a deliberate slowdown in speed, and must disclose how traffic in general is managed. A common complaint from the ISPs is that they are forced to spend an enormous amount of money to continually upgrade their networks while allowing data-intensive services such as Netflix, Hulu, Facebook and Alphabet to profit from their own businesses while being shielded from the costs of managing the networks. The FCC and the ISPs posit that being allowed to negotiate customizable, differentiated service contracts will promote investment, innovation, and possibly lower the cost to consumers. The data-intensive internet companies argue that eliminating net neutrality rules will increase costs and give too much power to the ISPs to dictate how the internet is used. It is expected that new FCC rules will be approved at its upcoming meeting on 12/14.

Economy
The most anticipated report this week was Wednesday’s second look at third quarter GDP. Third quarter GDP advanced by 3.3%, which was a slight increase from the 3.0% reported on October 27th. Equipment spending showed a nice improvement increasing by 10.4% at an annual rate. This is the fastest pace for this metric going back to 2014. Corporate profits grew 4.3% in the third quarter and are up 5.4% over the past 12 months. Overall, the third quarter was the best quarter for real GDP growth since Q3 2014 and follows an impressive figure recorded for Q2 (+3.1%). In other news this week, new home sales displayed a 6.2% increase to 685,000 units in October easily beating expectations. This is a new high for the expansion, and new home sales have now increased for three straight months. On Thursday, we were pleased to see personal income advance by 0.4% in October and personal consumption increase by 0.3%. Over the past 12 months, personal income is up 3.4% and personal consumption is up 4.2%. Finally, we were pleased to see consumer confidence reach a new high for this expansion with the index hitting 129.5 in November.

Fixed Income/Credit Market
Fixed income performance for the month of November was mixed across all the sectors that we follow. The best performing sectors were international treasury bonds (non-currency hedged) and long-term high quality U.S. bonds with month-to-date total returns of 2.11% and 0.75%, respectively. The poorest performing sector was U.S. investment grade municipals with a monthly total return of negative 0.47%. Meanwhile, short and intermediate term high quality U.S. bonds along with emerging market bonds (currency hedged), all had monthly total returns of negative 0.27%. As the prospect of tax reform begins to take shape, anticipation of increased municipal supply has helped push municipal yields higher. Bloomberg’s 10-year AAA municipal benchmark is trading at roughly 2.15%, approximately 21 basis points above its low on November 8th when it traded at 1.94%. Given the sharp increase in short to intermediate term interest rates across the U.S. Treasury yield curve, it is no surprise that longer-duration bonds outperformed short and intermediate term bonds.

Equities
This week equities pushed through new highs due to favorable consumer economic data and forward progress in tax reform. However, there was significant change in sector leadership. The lagging energy sector showed positive returns for the week as oil prices pushed higher with news that OPEC extended output cuts until the end of 2018. Other laggards this year are telecom stocks, which recorded a strong week due to sector rotation out of technology. There did not appear to be a trigger for weakness in technology stocks aside from profit taking and rotation into other sectors. Financial stocks were strong after Fed chair nominee Powell indicated a continuity in Fed policy and he commented that additional bank regulation was unnecessary. Finally, foreign stocks pulled back this week as investors focused on how tax reform and cuts will impact the U.S. economy.

S&P 500

Our View
U.S. equity markets hit record highs this week with the progression of tax reform through the Senate being the main short-term catalyst. At this point, it is looking probable that this week’s negotiations will produce the 50 votes that are needed to move the bill forward in the Senate and allow for the reconciliation process to begin. The last hurdle to pass the tax bill will be to reconcile both the House and Senate versions of the bill in order for it to be sent to President Trump for approval. There are still some major sticking points between both sides of Congress with respect to the tax reform bill; however, we anticipate that Republicans will come together and gather enough support to pass the bill in early 2018. On a more cautious note, emerging market equities were down almost 3% for the week as some signs of liquidity stress are beginning to surface in China. Moreover, short-term funding costs for smaller borrowers have increased recently as the People’s Bank of China works on reigning in the shadow banking sector. Chinese officials are watching this situation closely and will most likely provide liquidity if credit spreads widen too quickly. The market is not too concerned with the minor liquidity stress surfacing in China as 5-year sovereign credit default swaps ended the week at only 57 basis points (bps) which is well below the year-to-date average of 75 bps.

COMING UP NEXT WEEK

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
<th>Est.</th>
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<tbody>
<tr>
<td>12/04</td>
<td>Factory Orders</td>
<td>-0.4%</td>
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<tr>
<td>12/05</td>
<td>ISM Non-Manufacturing PMI</td>
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<tr>
<td>12/05</td>
<td>International Trade</td>
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<tr>
<td>12/06</td>
<td>Productivity &amp; Costs</td>
<td>Q3</td>
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<td>12/06</td>
<td>ADP Employment</td>
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<td>12/08</td>
<td>Nonfarm Payrolls</td>
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