The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

March 2, 2018

As of 03/02/2018		Wk Net	Wk %	Div	YTD %	12 Mos %
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	24,538.06	-771.93	-3.05	2.15	-0.73	16.83
S&P 500	2,691.25	-56.05	-2.04	1.91	0.64	12.96
NASDAQ 100	6,811.04	-85.56	-1.24	1.00	6.48	26.99
S&P MidCap 400	1,878.61	-25.62	-1.35	1.55	-1.16	8.06
Russell 2000	1,533.17	-16.01	-1.03	1.34	-0.08	9.94

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	2.24	Euro/Dollar	1.23	0.26
5-Year	2.63	Dollar/Yen	105.70	-1.11
10-Year	2.87	Sterling/Dollar	1.38	-1.27
30-Year	3.14	Dollar/Cad	1.29	1.93

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

The new tax law allows companies to pay a levy between 8–15.5% instead of 35% to bring back overseas cash to the U.S. The economic case for the corporate tax cuts was that the lower rate and incentives would make it more attractive for U.S. companies to make investments in their own businesses. Since the passage of the new tax plan, U.S. corporations have authorized about $200 billion in share buybacks. This is more than double the $76 billion during the same time frame last year. Bank of America predicts that companies will use repatriated foreign profits to buy back $450 billion of stock this year. So far, it seems as though the bulk of the savings from the tax plan are being spent on increasing shareholder value through buybacks and dividends rather than on reinvesting in the company and its workers. This news has spurred debate in Washington. One side points to the fact that 84% of stocks are held by the wealthiest 10% of households and the buybacks come at the expense of investing in capital improvements, hiring and research. The other side maintains that the plan will lead to more business investment and wage growth in the future. There will be continued debate on this issue.

Economy

The best news this week came on Thursday with the release of personal income/consumption data and the ISM manufacturing survey. Personal income increased by 0.4% in January and personal consumption decreased by 0.1%. Disposable personal income surged by 0.9% and is now up 4.0% year-over-year. It was also encouraging to see the personal savings rate climb back above 3.00% (3.2%). The headline composite for the ISM manufacturing survey increased from 59.1 in January to 60.8 in February. This figure easily surpassed expectations and is a new high for the expansion. The internal employment index rose from 54.2 to 59.7, and the new orders index settled in at 64.2. On Monday, there was some negative news with new home sales declining by 7.8% to 593,000 units in January. These figures were below expectations and there have now been huge declines in the last two months. Tuesday brought us orders for durable goods and the headline number declined by 3.7%, while orders for non-defense capital goods excluding aircraft dropped 0.2% in January. This important "core" metric also dropped in December. Finally and on Wednesday the second reading on Q4 GDP was revised lower to 2.5% from 2.6%. The third and final reading on Q4 GDP will be on Wednesday, March 28th.

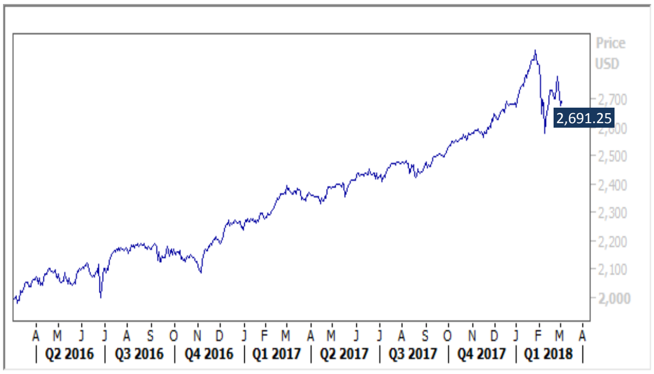
Fixed Income/Credit Market

As interest rates across the U.S. Treasury curve continued their ascent throughout February, fixed income performance was negative for the majority of sectors that we follow. The top performers were preferred equity and higher-quality international bonds (currency hedged) with total returns in February of 0.27% and 0.26%, respectively. The worst performing sectors were long-term investment grade U.S. bonds and emerging market bonds (currency hedged) with monthly total returns of -3.14% and -2.18%, respectively. Yields across the U.S. Treasury curve increased in February anywhere from 10.9 basis points (bps) at the 2-year tenor to 19.7 bps at both the 3-month and 6-month tenors. The benchmark 10-year Treasury increased 15.6 bps month-over-month which caused the 2-year and 10-year Treasury spread to steepen 4.7 bps to close February at a spread of 61 bps. The 2-year and 10-year Treasuries close Friday at approximately 2.24% and 2.87%, respectively.

Equities

The closely watched 10-year U.S. Treasury rallied into Monday's open propelling equities higher. Fed Chair Jerome Powell's Congressional testimony caused a sell off throughout Tuesday's trading day despite his confirmation that the Fed will maintain its gradual course to normalization. On Thursday, President Trump's pledge to impose new tariffs on imported steel and aluminum led to major declines with concerns of global trade war. The telecommunications sector led the S&P 500 Index recording a gain of 0.63% and making it the only sector to post gains for the week. Materials and industrials were this week's worst performing sectors declining 3.83% and 3.24%, respectively. These two sectors have a large exposure to commodities and President Trump's tariffs will create pressure on companies competing in these spaces.

S&P 500



Our View

The news flow this week was especially busy. Jerome Powell gave his first Congressional testimony as Fed Chairman. Like most observers, we were especially interested to see if the tone of comments would represent a shift from Janet Yellen. Although some traders interpreted his comments as more hawkish than expected, he reaffirmed maintaining the gradual course that the Federal Reserve has been following. Over the last two years, the financial markets have consistently priced in fewer increases than Fed officials' guidance. With increased inflation expectations over the last six months, markets are now priced to match the three-rate increases being suggested by Mr. Powell. The most significant news of the week was President Trump's comment that the U.S. will announce new tariffs of 25% on steel imports and 10% on aluminum imports next week. The equity markets' acute negative reaction was concern over potential retaliation from China, Canada and the EU. The Trump administration has already slapped tariffs on solar panels and washing machines, so clearly this is an emerging trade policy. Tariffs are essentially a tax on specific competitors (foreign) in the selected market. In the case of steel, for example, foreign steel will become more expensive relative to domestic steel. U.S. steel producers will receive a pricing umbrella and are likely to take advantage of that. Ultimately, these price increases will be passed along to consumers. This is just one of the reasons that an expansive use of tariffs in trade policy is regarded as negative for the global economy.

COMING UP NEXT WEEK		Est.
03/05 ISM N-Mfg PMI	(Feb)	59.0
03/06 Factory Orders MM	(Jan)	-1.3%
03/09 Non-Farm Payrolls	(Feb)	190k
03/09 Unemployment Rate	(Feb)	4.0%
03/09 Average Earnings YY	(Feb)	2.8%

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