# The Weekly

## Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

April 13, 2018

| As of 04/13/2018 | | Wk Net | Wk % | Div | YTD % | 12 Mos % |
|---|---|---|---|---|---|---|
| **STOCKS** | Close | Change | Change | Yield | Change | Change |
| DJIA | 24,360.14 | 427.38 | 1.79 | 2.19 | -1.45 | 19.10 |
| S&P 500 | 2,656.30 | 51.83 | 1.99 | 1.95 | -0.65 | 14.05 |
| NASDAQ 100 | 6,628.34 | 195.13 | 3.03 | 1.04 | 3.63 | 23.81 |
| S&P MidCap 400 | 1,883.86 | 29.78 | 1.61 | 1.60 | -0.88 | 12.07 |
| Russell 2000 | 1,549.51 | 36.21 | 2.39 | 1.31 | 0.93 | 15.20 |

| **TREASURIES** | Yield | **FOREX** | Price | Wk %Change |
|---|---|---|---|---|
| 2-Year | 2.36 | Euro/Dollar | 1.23 | 0.41 |
| 5-Year | 2.67 | Dollar/Yen | 107.34 | 0.36 |
| 10-Year | 2.82 | Sterling/Dollar | 1.42 | 1.04 |
| 30-Year | 3.03 | Dollar/Cad | 1.26 | -1.43 |

Source: Thomson Reuters & Bloomberg

### What Caught Our Eye This Week

With the emphasis this week on Facebook and its potential impact on our data privacy, another burgeoning area that will become more controversial over time comes to mind – electronic facial recognition. This capability has improved dramatically, and the global leader is China who uses the technology for access to buildings, authentication at ATMs and to log into mobile applications. Its primary use, however, is to monitor political dissidents, identify criminals and to profile its citizens. According to the Wall Street Journal, worldwide sales of surveillance equipment increased by about 55% over the five-year period ending in 2016. China has about 170 million cameras installed today, and the country plans to place another 450 million cameras over the next two years. The Chinese government is expending massive amounts of resources to build out its monitoring infrastructure. Many Chinese police now wear eyeglasses that have embedded facial recognition technology that scans crowds of people and identifies individuals accused of crimes or those wanted for other reasons. The technology can accurately identify people from a massive data-base in about 100 milliseconds. Research is being conducted in the United States in an effort to produce similar products. As a society that deeply values freedom and privacy, these forms of technologies will experience a slower pace of adoption in the U.S.

### Economy

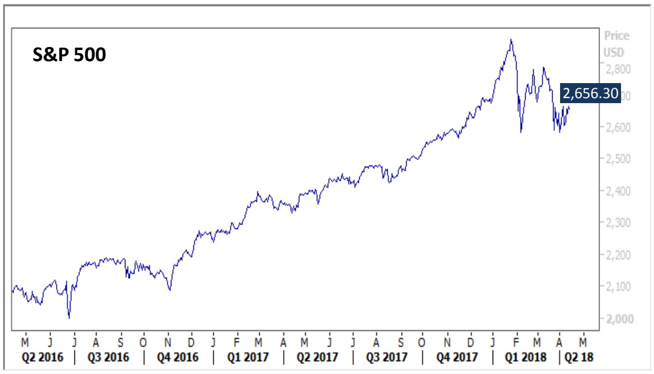
This week the economic data focused on inflation numbers with the release of the producer price index and the consumer price index. On Tuesday, the PPI figures came in above expectations with an increase of 0.3% in March. Over the past 12 months, this metric has increased by 3.0% matching the fastest 12-month pace going back to 2012. The “core” PPI which excludes food and energy prices advanced by 0.3% and is now up 2.7% year-over-year. The largest influence on the headline figure was food prices, which increased by 2.2%. The consumer price index was reported on Wednesday and showed a decline of 0.1% in March, which was below consensus expectations. Over the past year, this index has increased by 2.4%. The “core” CPI advanced by 0.2% and is now up 2.1% year-over-year. Inflation has been accelerating over the past six months and three months with increases of 2.6% and 2.9%, respectively. Finally on Friday the JOLTS report (job openings and labor turnover survey) displayed 6.1 million job openings in February. The JOLTS report also showed a net employment gain over the past 12 months of 2.3 million.

### Fixed Income/Credit Market

Interest rates across the active U.S. Treasury curve increased during the first quarter between 23.4 and 41.2 basis points (bps) which caused negative total returns for most of the fixed income sectors that we follow. The worst performing sectors were long-term investment grade U.S. bonds and emerging market bonds (currency hedged) with total returns of -3.81% and -2.27%, respectively. The top two performers were international treasury bonds (non-currency hedged) and senior loans with total returns in the first quarter of 3.96% and 1.31%, respectively. Non-currency hedged international bonds have outperformed due to the lack of exposure to a weaker U.S. dollar as well as continued quantitative easing in the Eurozone. Senior loan performance can be attributed to the floating rate nature of leveraged loans, which mitigates interest rate risk.

### Equities

Domestic stocks gained approximately 2.0% bouncing back after the prior week’s 5.2% selloff. The major factors driving the market were lessening trade war concerns and optimism for first quarter earnings. Chinese President Xi Jinping pledged to reduce limits on foreign investments as well as reduce some import tariffs signaling a significant moderation in trade tensions. Earnings season is underway with major banks such as JPMorgan, Citigroup, and Wells Fargo announcing mixed results. With just 6% of S&P 500 constituents having reported results, we are still too early into earnings season to interpret the market’s broader results. WTI crude hit its highest price since June of 2015, lifting the energy sector to a 6% gain this week making it the top performing sector. The telecommunications and information technology sectors followed increasing by 3.94% and 3.51%, respectively. Only two sectors posted negative returns week-over-week, the utilities and real estate sectors returned -1.28 and -1.07%, respectively.




### Our View

The risk-on trade regained momentum this week as trade war tensions simmered between the U.S. and China. Chinese President Xi Jinping’s speech on Tuesday was well received by the market participants as he discussed expanding foreign company access to Chinese markets, reducing tariffs on imported cars and enhancing intellectual property protections. President Trump spoke favorably of Xi’s speech, which is a welcome development given that just last week, the two largest economies in the world were proposing sizable trade tariffs on each other. Trade tensions between the U.S. and China are far from being resolved at this point, but the positive progress is certainly a step in the right direction. With that being said, large cap domestic equity valuations made a comeback this week. Looking at the S&P 500 Index on a price to forward earnings (Bloomberg blended 12-month forward) multiple, the current level of 16.5 times is up from the recent low of 16.0 times on 4/2/18. With our belief that a majority of this year’s equity returns will come from earnings growth and not multiple expansion, it is encouraging to see that the recent pull back in the price to earnings multiple has subsided and is beginning to reverse. However, a major headwind for further multiple expansion will be rising interest rates and inflation. The release of the most recent FOMC minutes tilted hawkish as the participants acknowledged the outlook for the economy has strengthened recently and the implied probability of a rate hike in June increased to 88.6%. The market is currently pricing in 2 additional 25 basis point Fed funds hikes in 2018 and based upon the current economic environment, the prediction seems very reasonable.

| COMING UP NEXT WEEK | | Est. |
|---|---|---|
| 04/16 Retail Sales MM | (Mar) | 0.4% |
| 04/17 Housing Starts Number | (Mar) | 1.269M |
| 04/17 Industrial Production MM | (Mar) | 0.3% |
| 04/17 Capacity Utilization MM | (Mar) | 77.9% |
| 04/19 Philly Fed Business Index | (Apr) | 20.0 |

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