The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

October 26, 2018

As of 10/26/2018		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	24,688.31	-756.03	-2.97	2.25	-0.12	5.50
S&P 500	2,658.69	-109.09	-3.94	1.98	-0.57	3.83
NASDAQ 100	6,852.40	-254.83	-3.59	1.07	7.13	13.49
S&P MidCap 400	1,795.10	-77.07	-4.12	1.75	-5.55	-1.87
Russell 2000	1,483.82	-58.22	-3.78	1.54	-3.37	-0.91

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	2.81	Euro/Dollar	1.14	-0.94
5-Year	2.91	Dollar/Yen	111.82	-0.66
10-Year	3.08	Sterling/Dollar	1.28	-1.84
30-Year	3.32	Dollar/Cad	1.31	-0.13

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

This week, Gallop polls and a new NBC/WSJ poll showed the president's approval rating had increased to 44% and 47%, respectively. Polls also reveal that healthcare is an issue that matters a great deal to Americans. Healthcare consumes 18% of the U.S. gross domestic product (GDP) and national health-care spending now exceeds $3.4 trillion annually. Part of the problem is the rate of healthcare cost inflation, which is nearly twice the annual rate of GDP growth. On healthcare, each party is internally divided. The democrats have those that want to support and strengthen the Affordable Care Act (ACA) and those that only want a government-run single payer system (Medicare for all). The republicans adhere to President Trump's message to dismantle the ACA and to shift control of Medicaid from the government to the states (which would reduce coverage for individuals). Others in the Republican Party worry that shrinking Medicaid or undermining the health exchanges will not help them get re-elected because they live in states that support the ACA. In the end, both sides know that voters are very concerned about the cost of medications and associated out-of-pocket expenses. Health care costs and the ACA is one of the most important factors that will influence voters this election day.

Economy

The economic headliner this week was Friday's report on third quarter GDP. This was the first look at Q3 GDP and the figures were better than expected rising at a 3.5% annual rate. The good news was robust consumer spending, posting a 4.0% advance in the quarter. The bad news was business spending on equipment stalled in the third quarter, and residential investment contracted for a third straight quarter. Inventory investment added 2.07% points to GDP growth, while the widening trade gap subtracted 1.78% points. In other news this week, durable goods numbers were released on Thursday and while the headline figure increased by 0.8% in September, the "core" statistics were unimpressive. Core capital goods orders declined by 0.1% and core shipments were unchanged for a second consecutive month. Finally, on Wednesday, new home sales showed another decline (-5.5%) in September, decreasing for a fourth straight month. Over the past 12 months, new home sales are down 13.2% and the median price of a new home sold has dropped by 3.5%.

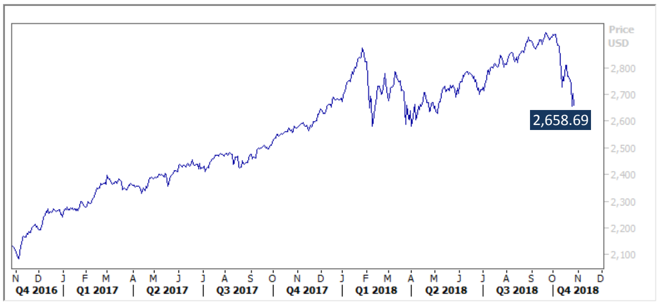
Fixed Income/Credit Market

This week, interest rates across the U.S. Treasury curve have decreased materially. Not even a healthy dose of Treasury supply ($276B) could prevent the downward pressure on U.S. Treasury yields. The 5-yr part of the Treasury curve rallied back the most at 13.6 bps followed by the 7-yr and 3-yr Treasuries which decreased 13.1 bps and 12.4 bps, respectively. The financial market turmoil also had a widening effect on credit spreads. On the week, the 5-yr AA, A, BBB-rated composites increased 5.1 bps, 3.8 bps, and 4.7 bps. In the high yield market, spreads gapped even wider with the 5-yr BB and B-rated composites increasing 16.2 bps and 19.4 bps, respectively on the week. In the U.S., with inflation weakness and market volatility escalating, the implied probability of a rate hike at the December FOMC meeting decreased from 81% to 69.4%, week-over-week.

Equities

Equities continued to decline this week, with October on track to be the worst month in eight years. The week began with weakness in the banks, as investors grew concerned that rising interest rates may cut into loan growth. In addition, a couple of large industrial companies released disappointing results caused by higher expenses and costs associated with tariffs. The market made a large positive reversal mid-week due to favorable results from Microsoft, which led the S&P 500 to advance 1.9% and NASDAQ to surge 3%. The positive tone was short lived and by the end of the week, two major growth companies, Amazon and Alphabet, released results with revenue growth that was less than expectations and the market turned negative. All sectors witnessed declines during the week, yet the most notable were declines in industrials, financials and technology, with declines of 5.2%, 4.8% and 4% respectively. With about one half of the S&P 500 companies reported thus far, next week is another busy week of corporate reporting.

S&P 500



Our View

The drawdown in October has taken both the S&P 500 and Nasdaq down slightly over 10% from recent highs. Both the Dow Jones Industrial Average and the S&P 500 erased the indexes gains for the year. The volatility experienced this week has heightened the growing unease that investors are feeling. The selloff has been amplified as companies have reported third quarter earnings. Earnings reports have been more than solid. According to Zacks Investment Research, 139 companies have reported through Thursday with year-over-year earnings growth approximately 22% and revenue growth has been 8.7%. The preponderance of companies are exceeding expectations with 82% of companies reporting above consensus estimates. Investor sentiment turned negative regarding earnings due to deteriorating forward guidance. During investor conference calls many management teams are citing the potential for slower earnings ahead due to a rising dollar, higher input and trade related cost. We have pointed out the spark that caused the correction was a shift in expectations toward a more aggressive path forward after the Fed raised rates in September. Less central bank support from quantitative easing and artificially low interest rates will cause all risk assets to trade more closely with fundamentals. Ample liquidity has lifted markets and provided stability to the equity rally. With the Fed and the ECB reducing monetary policy accommodation, risk assets are going to be appreciably more volatile. This is the primary difference between 2018 versus 2017. Fortunately, economic fundamentals remain strong. U.S. third quarter GDP rose 3.5% and has good momentum heading into 2019.

COMING UP NEXT WEEK		Est.
11/01 ISM Manufacturing PMI	(Oct)	59.0
11/02 Non-Farm Payrolls	(Oct)	190k
11/02 Unemployment Rate	(Oct)	3.7%
11/02 Factory Orders MM	(Sep)	0.4%

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