The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

March 10, 2017

As of 03/10/2017		Wk Net	Wk %	Div	YTD %	12 Mos %
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	20,902.98	-102.73	-0.49	2.33	5.78	23.00
S&P 500	2,372.60	-10.52	-0.44	1.96	5.91	19.18
NASDAQ 100	5,385.90	12.42	0.23	1.11	10.74	25.63
S&P MidCap 400	1,710.90	-28.60	-1.64	1.66	2.89	23.70
Russell 2000	1,365.26	-28.86	-2.07	1.43	0.56	28.27

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.36	Euro/Dollar	1.07	0.53
5-Year	2.10	Dollar/Yen	114.70	0.58
10-Year	2.57	Sterling/Dollar	1.22	-1.07
30-Year	3.16	Dollar/Cad	1.35	0.64

Source: Thomson Reuters, Bloomberg

What Caught Our Eye This Week

The key to wealth creation is innovation, and there is no greater demonstration of this than a simple analysis of the Standard & Poor's 500 Index over time. Ten years ago, the largest six companies as measured by market capitalization were: Exxon Mobil, General Electric, Microsoft, Citigroup, AT&T and Bank of America. Today, the largest companies are Apple, Alphabet (parent of Google), Microsoft, Berkshire Hathaway, Amazon and Facebook. Innovation has been the driving force behind the index's transformation. iPhone and iPad sales have added $653 billion in value to Apple, and have catapulted the company from number 35 to number 1. Alphabet's increasing relevance has added $442 billion to its worth and has helped it move up 14 positions to number 2. Berkshire Hathaway only entered the index seven years ago, and through acquisitions and astute management has grown by $385 billion over the past decade. Due to customer ease of use and the company's superb execution, Amazon has grown from a $16 billion company to a $406 billion company today. Finally, Facebook, which dominates the new social media space, went public about five years ago and is now number 6 on the list at $398 billion.

Economy

The most anticipated report this week was the nonfarm payroll report, which was released on Friday. The report showed payrolls increasing by 235,000 in February, which was above the consensus forecast of 200,000. The unemployment rate declined to 4.7%, and more importantly the U-6 measure of unemployment declined to 9.2%. Average hourly earnings increased by six cents and are now up 2.8% year-over-year. Overall, there were positive revisions to the December and January jobs figures totaling 9,000. Examining the different employment sectors, construction gained 58,000 jobs and manufacturing added 28,000. The labor force grew by 340,000, which increased the labor force participation rate to 63%. The labor force has grown in every calendar year since 2010, and over the past 12 months has increased by 1.6 million. In other news this week, nonfarm business productivity increased by 1.3% year-over-year in the fourth quarter. Unit labor costs increased by 1.7%, and are now up 2.0% over the last year. Overall productivity trends remain soft, and continue to be the missing part of this economic expansion. Finally, on Thursday, initial jobless claims increased by 20,000 to 243,000 during the week ending March 4th. The four-week moving average is now at 237,000.

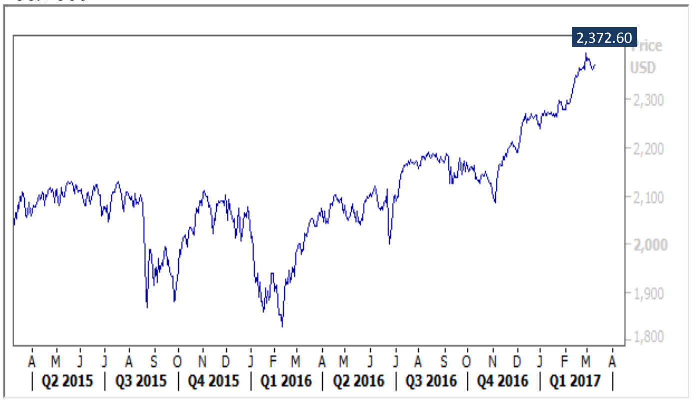
Fixed Income/Credit Market

Ten-year municipal debt backed by the state of New Jersey is currently trading at approximately 101 basis points above the Bloomberg 10-year AAA municipal index, roughly 7 bps above the three-month average. Over the same three-month period, yields have fluctuated from a low of 3.04% on January 17th to a high of 3.49% on March 9th. The visible 30-day supply is approximately $269MM, while the amount of debt expected to retire is $491MM. Furthermore, municipalities across the U.S. have issued $25.8B in debt the past 30 days while $17B has been retired. On March 8th, a bipartisan group of 156 U.S. Congressional members wrote a letter to the House Ways and Means Committee underscoring the importance of municipal bonds as a way to finance infrastructure. Any changes to the tax-exempt status would increase the cost of financing for states and local governments. In the next ten years, municipal bonds are predicted to finance $3 trillion in new infrastructure investments.

Equities

Stocks had a generally upbeat reaction to the first U.S. jobs report during the Trump administration. The DJIA still hovers slightly below the all-time high of 21,169, a record set just ten days ago, while the broad S&P remains close to the recent record high of 2400.98. Continuing strength in the labor market saw an increase of 235,000 jobs and that number was solidly above consensus estimates. The strong jobs number should further support the Federal Reserve's efforts to normalize rates and that would most likely benefit financial stocks, particularly large banks, who have been among the market's best performers since election day. The combination of an improving economy, rising net interest margins, and relaxed regulation has triggered the stock prices of Bank of America and Goldman Sachs to skyrocket over 40% since election day. While most sectors exhibit good relative performance while tracking market highs, the energy sector remains the only industry group with negative performance since election day. This week, NYMEX light sweet crude oil traded down for a third session in a row, as April futures traded below an important support level of $49 per barrel and that is down from 2017 highs of $54. Bellwether Exxon/Mobil is down 9.4% YTD.

S&P 500



Our View

Market participants are looking for the Fed to hike the Fed Funds rate at their March 15th meeting. According to the Reuters poll of more than 100 economists, the economic data is strong enough to support this rate hike. The Bloomberg implied probability of a rate hike next week is now at 100% after a number of hawkish comments last week. If the Fed is able to orchestrate three rate hikes this year at 25 basis points each, the Fed Funds target rate would be 1.25%-1.50% by year-end. The commentary from the meeting and the update to the Fed's economic forecast will be closely watched and compared to what was released at December's meeting. Mario Draghi announced on Thursday that the European Central Bank is maintaining its benchmark rate and will continue with the monthly asset purchase program at a reduced level. The tone was more positive on the Eurozone economy and gave a lift to the European banking sector. The rise in U. S. interest rates and change in policy is a break from the coordinated global stimulus since the 2008 financial crisis. The Fed will be closely watching and balancing interest rate normalization with economic growth and financial stability. We expect that there will be increasing volatility in both the fixed income and equity markets as the Fed embarks on this new course.

COMING UP NEXT WEEK		Est.
03/15 CPI MM, SA	(Feb)	0.1%
03/15 Retail Sales MM	(Feb)	0.1%
03/16 Housing Starts Number MM	(Feb)	1.26mln
03/17 Industrial Output MM	(Feb)	0.2%
03/17 U Mich Sentiment Prelim	(Mar)	97

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