The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

June 29, 2018

As of 06/29/2018		Wk Net	Wk %	Div	YTD %	12 Mos %
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	24,271.41	-309.48	-1.26	2.24	-1.81	14.02
S&P 500	2,718.37	-36.51	-1.33	1.92	1.71	12.38
NASDAQ 100	7,040.80	-156.71	-2.18	0.97	10.07	24.55
S&P MidCap 400	1,951.67	-37.94	-1.91	1.55	2.69	11.91
Russell 2000	1,643.07	-42.51	-2.52	1.36	7.00	16.02

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	2.53	Euro/Dollar	1.17	0.21
5-Year	2.74	Dollar/Yen	110.66	0.62
10-Year	2.86	Sterling/Dollar	1.32	-0.47
30-Year	2.99	Dollar/Cad	1.31	-1.08

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

For the first time in 110 years, General Electric will not be a member of the Dow Jones Industrial Average (Dow or DJIA). This week the committee that runs the DJIA replaced the stock with Walgreens Boots Alliance. GE was an original member of the Dow in 1896 and has been in the index continuously since November of 1907. Described as an exclusive corporate club, the original 12 Dow stocks included cotton, sugar, distilling, tobacco and railroad companies. In 1928, near the economic height of that decade, the components of the Dow were increased to 30 stocks. This week's change is indicative of an economic environment that has changed from machinery type industries toward service industries. Also, the DJIA is a price-weighted index and with GE stock price being so low it had barely any influence on the Dow. In comparison, the S&P 500 is a market-cap weighted index. Considered one of the best representations of the U.S. stock market, the S&P 500 Index is the more commonly followed equity index because of its diverse constituency and weighting methodology. There is about $20 billion invested in exchange traded funds (ETF's) tied to the Dow. By comparison, ETFs that track the S&P 500 have assets of around $380 billion.

Economy

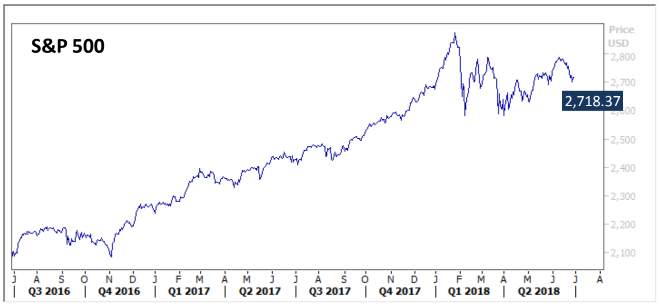
On Monday, new home sales surprised to the upside increasing 6.7% in May to a 689,000-annualized rate. This is the second highest level since 2007 and they are now up 14.1% year-over-year. The median price of a new home sold was $313,000. On Wednesday, the May durable goods report was released. New orders for durable goods declined 0.6% which beat expectations of a decline of 1.0%. The decline was led by motor vehicles and commercial aircrafts. The "core" capital goods orders, a closely watched proxy for business spending which excludes aircraft and defense, fell 0.2%, but data for April was revised significantly higher from +1.0% to +2.3%. The third and final estimate for first quarter GDP was also released this week. GDP growth dropped from a previous estimate of 2.2% to 2.0% due to weaker consumer spending and smaller inventory accumulation. Consumer spending, which accounts for more than two-thirds of U.S. economic activity, slowed to a 0.9% rate instead of the previously reported 1.0%. Finally, on Friday, personal income and personal consumption came roughly in line with expectations.

Fixed Income/Credit Market

Looking at U.S. ETF fixed income fund flows over the previous week indicates investors are positioning for a steady increase in interest rates and the perceived risks of trade tariffs. In aggregate, ETF investors increased their ultra-short and short-term market cap allocations by $1.2B, a 1.1% increase. Since shorter-duration assets are typically less sensitive to rising rates, they continue to provide cover from interest rate risk and thus price volatility as global interest rates continue their ascent. Investment grade bond fund ETFs saw a net flow of approximately $2.1B, which increased the aggregate market cap of the sector by 1.4%. With trade tariffs potentially pressuring corporate balance sheets, this week's flows suggest that investors prefer higher quality fixed income assets. Furthermore, 45% of fixed income funds flowed into government bonds as the flight-to-quality trade was in full effect. On the week, U.S. Treasury Note yields decreased across the curve with the benchmark 10Y tenor lower by 3.3 bps to close the week at approximately 2.86%.

Equities

Geopolitical news was the main factor weighing on equity markets this week. The beginning of the week was dominated by news that President Trump was considering imposing restrictions on Chinese investment in American technology companies and high-tech exports to China. Markets significantly weakened with this news and the broad S&P 500 index fell about 1.4% on Monday, which was the largest one day decline since April 6. Weakness was witnessed in several sectors, particularly technology and consumer discretionary. Sentiment somewhat improved mid-week with news that the administration was softening its approach of foreign investment restriction by calling on Congress to broaden the existing process of foreign investment reviews. An industry report showing that U.S. crude supplies fell the lowest of the year sent WTI oil prices well above $70 a barrel and moved energy stocks higher. The utilities sector maintained its strong momentum of the past few weeks and ended the week as the best performer. Trade tensions also negatively impacted international markets, with the developed and emerging market indexes hitting lows for the year. Next week, trading volumes are likely to be light due to the holiday and anticipation of quarterly earnings that are due the next several weeks.



Our View

With the second quarter ending today from a trading perspective, we reflect on the first half of 2018 that was generally a disappointment for investors, especially considering how robust global equity markets were in January. The euphoria and optimism initially created from the passage of tax reform faded as the year progressed and concerns over trade policy and softening global economic growth rattled investors. The first half was the weakest performance for the S&P 500 in three years. Whereas domestic equities finished the first half little changed, international equity markets were modestly lower as global economies will be more adversely and acutely impacted by a potential trade war. Volatility is likely to increase in the second half as investors, who have been fixated on rising trade tensions, will be more keenly focused on the Federal Reserve as they continue to normalize and the mid-term elections. The typical trading pattern for equity markets in front of the mid-term elections is weakness due to the political uncertainty. Given the poisonous atmosphere in Washington that will only be heightened by the fight over Justice Kennedy's replacement, we expect the markets to be even more reactive toward news out of Washington. The six-month period following the mid-term election, which begins the third year of the Presidential cycle, has averaged 12% returns since 1957. If trade tensions wane by November, with the favorable domestic economic environment that we currently enjoy, the fourth quarter could allow equities to finish the year with a solid rally.

COMING UP NEXT WEEK		Est.
07/02 ISM Manufacturing PMI	(Jun)	58.0
07/03 Factory Orders MM	(May)	-0.1%
07/05 ISM N-Manufacturing PMI	(Jun)	58.3
07/06 Non-Farm Payrolls	(Jun)	200k
07/06 Unemployment Rate	(Jun)	3.8%

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