The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

May 5, 2017

As of 05/05/2017

STOCKS	Close	Wk Net Change	Wk % Change	Div Yield	YTD % Change	12 Mos % Change
DJIA	21,006.94	66.43	0.32	2.33	6.30	18.95
S&P 500	2,399.29	15.09	0.63	1.96	7.15	16.99
NASDAQ 100	5,646.09	62.56	1.12	1.07	16.09	31.02
S&P MidCap 400	1,738.52	5.76	0.33	1.71	4.69	20.19
Russell 2000	1,397.00	-3.43	-0.25	1.45	2.90	26.04

TREASURIES	Yield	FOREX	Price	Wk %Change
2-Year	1.31	Euro/Dollar	1.10	0.90
5-Year	1.88	Dollar/Yen	112.73	1.05
10-Year	2.35	Sterling/Dollar	1.30	0.15
30-Year	2.98	Dollar/Cad	1.37	-0.03

Source: Thomson Reuters

What Caught Our Eye This Week

On Sunday, France will conduct its runoff presidential election between Emmanuel Macron and Marine Le Pen, two candidates with widely different views. This election is important given the polarity of the possible outcomes, and given that France, the second largest Eurozone nation, has 67 million people and a $2.8 trillion economy. According to four recent polls, Macron is expected to win the election 62% to 38%, a 24-percentage point lead that almost guarantees him the position of head of state for the next five years. Marine Le Pen's far-right position advocates that France close its borders to immigration, institute tariffs to protect French businesses, and leave the euro currency. Mr. Macron supports globalization, the European Union, open immigration, and the loosening of France's strict labor rules. Remarkably, Macron is 39 years old and he has never held a position of elected office. In the past, he was an investment banker and he held the position of Minister of the Economy under the current president, François Hollande. While in this position, he initiated business-friendly reforms. Since the first round of elections when it became probable that Macron would win the runoff election, France's stock market has increased by almost 7%.

Economy

The most anticipated report this week was the nonfarm payroll report, which was released on Friday. This report showed payrolls increasing by 211,000 in April, which was above the consensus forecast of 190,000. The unemployment rate declined to 4.4%, and the U-6 measure of unemployment decreased to 8.6%. Average hourly earnings increased by 7 cents, and are now up 2.5% year-over-year. Examining the different employment sectors, leisure and hospitality added 55,000 jobs and professional and business services added 39,000. The labor force participation rate decreased to 62.9%, which is still low by historical standards. In other news this week, the ISM manufacturing survey decreased to 54.8 in April, and the forward looking new orders index declined to 57.5. Earlier in the week, we were pleased to see personal income increase by 0.2% in March, while personal consumption was unchanged. Disposable personal income increased by 0.2% and is now up 4.3% year-over-year. On Thursday, nonfarm business productivity showed a decline of 0.6% at an annual rate in the first quarter. This metric continues to be a soft spot for the economy, as productivity has only advanced at an 0.6% annual rate in the last five years.

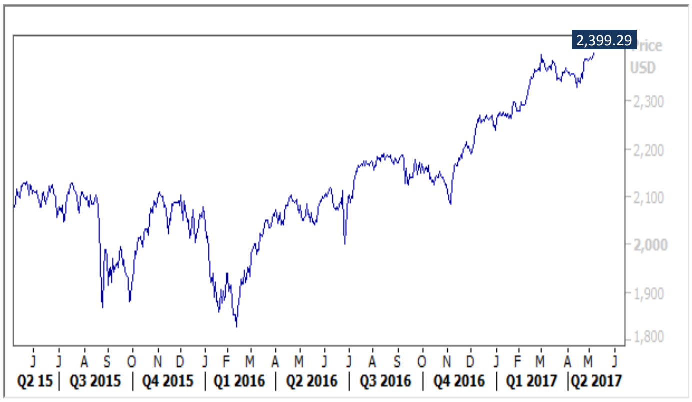
Fixed Income/Credit Market

The Fed released its statement on Wednesday and acknowledged that economic growth slowed in the first quarter of 2017, but also mentioned the slowdown in growth is likely to be transitory and that they expect growth to pick up at moderate pace moving forward. The market interpreted the previously mentioned statement to mean that the probability of a 25 basis point rate hike in June is certain. Moreover, the implied probability of a rate increase on June 14th is now 100%, which is vastly different from two weeks ago when the probability was slightly over 50%. With that being said, the U.S. Treasury yield curve moved up this week anywhere from 9 basis points at the 3-month tenor to 3 basis points at the 30-year tenor. The Fed did not mention any new details with respect to the prospect of shrinking its balance sheet and reiterated that balance sheet runoff will continue to be reinvested until the Fed funds rate reaches a higher level.

Equities

The broad market was relatively quiet this week, yet the disparity among the underlying market components was notable. The technology sector continued driving towards new highs as tech companies demonstrate superior revenue and profitability growth. Other positive sectors this week were financials and healthcare. International markets were the best performers this week, with European equities easily exceeding U.S. equities and in fact surpassing the strong year to date performance of emerging markets. European equities have been lifted by easing concerns in the political area and business growth. Notable weakness was experienced in the energy sector due to enduring excess oil supply pushing crude oil prices to nine month lows. Interest rate sensitive stocks such as REITs and limited partnerships witnessed some declines during the week as a result of moderate yield increases.

S&P 500



Our View

The domestic equity markets have been trading in a relatively flat and tight trading range since the third week of February. The listless trading pattern has evolved as the expectation of an economic regime shift, due to new political leadership, has confronted the difficulty of enacting real change. This week the House Financial Services Committee voted along party lines to submit the Financial Choice Act to the full House. The bill would rollback significant elements of the Dodd-Frank law. The banking and financial services industries strongly support lifting some of the burdensome restrictions of the Dodd-Frank law. The Financial Choice Act should easily pass out of the House, but Senate approval seems problematic. This is one example of the plodding efforts under way in Washington. Many asset classes have embedded in their valuations the expectations of significant reduction in regulation and tax reform. Given the political climate, the timing and magnitude of implementation remain highly uncertain. In the meantime, we sense some market complacency creeping into investor psychology regarding international economies, especially in regard to China. If financial market volatility picks up in China as Chinese officials begin to address high debt levels and risks to their banking system, investor attention could quickly shift away from Washington.

COMING UP NEXT WEEK		Est.
05/11 PPI Final Demand MM	(Apr)	0.2%
05/12 CPI MM	(Apr)	0.2%
05/12 Retail Sales MM	(Apr)	0.6%
05/12 U Mich Sentiment Prelim	(May)	97.0

For more information about our products: http://pgbank.com