The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

August 04, 2017

As of 08/04/2017		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	22,092.81	262.50	1.20	2.26	11.79	20.38
S&P 500	2,476.83	4.73	0.19	1.98	10.58	14.39
NASDAQ 100	5,899.91	-9.01	-0.15	1.10	21.31	24.37
S&P MidCap 400	1,751.48	-10.86	-0.62	1.71	5.47	13.22
Russell 2000	1,412.32	-16.94	-1.19	1.43	4.08	16.38

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.35	Euro/Dollar	1.18	0.14
5-Year	1.82	Dollar/Yen	110.67	-0.01
10-Year	2.26	Sterling/Dollar	1.30	-0.79
30-Year	2.84	Dollar/Cad	1.26	1.68

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

Credit card debt is back to where it was in 2008, around $1 trillion and continues to rise. The increase in debt has partially been driven by card issuers relaxing qualifications and offering better rewards to attract new customers. Today, credit card debt makes up 26% of total consumer debt but is down from 2008's level of 38%. This week, we saw credit card losses hit a four-year high, a concerning rise because consumers contribute roughly two-thirds of our GDP. Credit card charge-offs mean the company has declared the card holder's debt as a loss since a payment has not been made. In 2008, the charge-offs peaked at 10% and then declined over the next six years. In the 4th quarter of 2016, the trend reversed. The credit card charge-off rate increased to 3.29% at the end of 2Q 2017. The timing of this reversal is a concern because the U.S. currently has a very low unemployment rate. Rising charge-offs indicates Americans are taking on more credit card debt as income fails to keep pace with the cost of living. This is something to keep an eye on going forward.

Economy

The best news this week came on Friday with the release of the July nonfarm payroll report. This report showed payrolls increasing by 209,000, which easily surpassed the consensus figure of 183,000. The unemployment rate declined to 4.3%, and the U-6 measure of unemployment is now at 8.6%. Average hourly earnings increased by 9 cents and are now up 2.5% year-over-year. Examining the different employment sectors, healthcare added 39,000 jobs, and professional and business services added 49,000. The labor force participation rate increased to 62.9%, which is low by historical standards. There were positive revisions made to the June payroll report (+9,000) but negative revisions made to the May report (-7,000). Employment growth has accelerated over the past three months to an average of 195,000 new jobs created. In other news this week, the ISM manufacturing survey declined to 56.3 in July, and the forward looking new orders index decreased to 60.4. On Thursday, the ISM nonmanufacturing survey displayed similar decreases with the headline figure declining to 53.9 and the new orders index dropping to 55.1. Finally, we were disappointed to see personal income, personal consumption and disposable personal income show zero growth in the month of June.

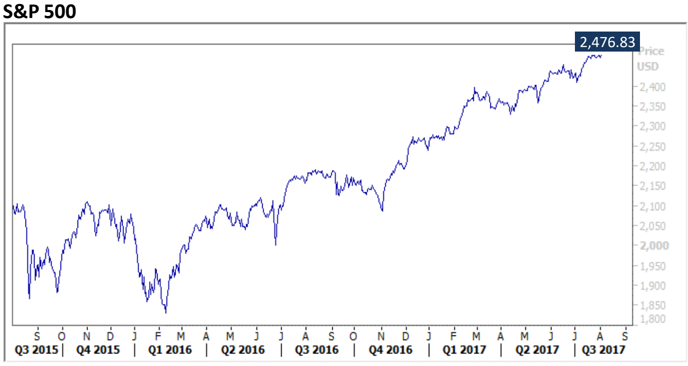
Fixed Income/Credit Market

In the month of July corporate bond fund ETFs saw net inflows of approximately $6 billion, which increased the aggregate market cap of the sector by 3.7%. Preferred equities also experienced a decent amount of inflow with the aggregate market cap increasing by 2.8% in July 2017. From a duration perspective, ETF investors allocated most of their funds in July to the ultra-short and short-term portion of the curve. More specifically, the aggregate market cap of the ultra-short and short-term duration fixed income ETFs increased by 5.9% and 2.0%, respectively. Despite benchmark yields decreasing across the curve anywhere from approximately 1 basis point to 5.2 basis points in July, there is still fear that interest rates can increase sharply over the next several months. Therefore, investors wary of duration risk have helped drive ETF flows to the front-end of the curve. In a rising rate environment, if interest rates increase 100 bps over a one-year horizon, the 2-year US Treasury will have a total return of 0.53% whereas the intermediate part of the curve will have negative 1.32% of total return at the 5-year tenor.

Equities

Despite the continued turmoil in Washington, equity markets continued to drive higher this week. The ascent was steady, with eight consecutive days of new highs in the Dow Jones Industrial Average. Investors are focused on second quarter financial reports, and positive results continued this week. The broader equity market indexes saw moderate sector rotation, with increases in utilities, financials, and industrials, while energy and materials were slightly weaker. Despite oil prices peaking above $50 for the first time since the spring, oil sector stock prices were relatively weak due to several shale producers indicating that overall supply is still rather volatile relative to the emerging demand. Both developed and emerging international markets also showed positive returns. The small cap indexes were slightly negative for the week, largely attributed to the index's exposure to the oil industry. Next week, the overall volume of company reporting will decrease, but investors will be focused on reports from several high profile media and retail stocks.

S&P 500



Our View

The U.S. dollar Index (DXY), which is an index of the value of the dollar relative to a broad basket of foreign currencies, has significantly weakened over the last five months. The DXY is down over 7% from the end of the first quarter. Most of this decline has been driven by the appreciation of the Euro relative to the U.S. dollar. The Euro/$ exchange rate has gone from 1.065 to 1.175. The sentiment from forex traders is that dollar weakness will continue for a while despite the Fed raising short-term interest rates three times since December. The fundamental issue that seems to be at play driving the dollar lower is the relative economic growth expectations for the U.S. versus Europe. International economies, including the EU, are accelerating relative to flat growth domestically. Ultimately, better European growth will cause the ECB to be more hawkish. Another plausible explanation is the political train wreck Washington has become. Political risks in the U.S. certainly have risen which is creating uncertainty for the global investor. Regardless of the cause, the weaker dollar will be supportive of S&P 500 earnings due to both a translation effect and ultimately from an economic impact.

COMING UP NEXT WEEK		**Est.**
08/07 Consumer Credit	(Jun)	15.84B
08/10 PPI Final Demand MM	(Jul)	0.1%
08/10 PPI ex Food/Energy MM	(Jul)	0.2%
08/11 Core CPI YY, NSA	(Jul)	1.8%
08/11 CPI MM, SA	(Jul)	0.2%
08/11 CPI YY, NSA	(Jul)	1.8%

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