The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

May 19, 2017

As of 05/19/2017		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	20,804.84	-91.77	-0.44	2.37	5.27	19.33
S&P 500	2,381.73	-9.17	-0.38	1.99	6.36	16.73
NASDAQ 100	5,651.56	-35.25	-0.62	1.13	16.20	30.96
S&P MidCap 400	1,712.08	-7.25	-0.42	1.74	3.10	19.63
Russell 2000	1,367.33	-15.44	-1.12	1.47	0.73	24.86

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.27	Euro/Dollar	1.12	2.47
5-Year	1.78	Dollar/Yen	111.17	-1.93
10-Year	2.24	Sterling/Dollar	1.30	1.09
30-Year	2.90	Dollar/Cad	1.35	-1.46

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

On Thursday of next week, the 13 members of the Organization of the Petroleum Exporting Countries (OPEC) and 11 non-member countries will meet in Vienna to consider extending oil production cuts. Last November, the group agreed to reduce output by 1.8 million barrels of oil per day for the first six months of this year in order to bring oil inventory levels to their 5-year average which in turn was expected to increase the price of oil. (Global oil production is about 96 million barrels of oil per day.) After the meeting in November, the price of Brent crude oil was just above $50 per barrel, and the hope was to eventually bring the price to $60 per barrel. Over the subsequent five months, the price dropped below $50 because of rising oil production from countries outside of the group of 24 countries that negotiated the deal. In response, the 24 countries who will reconvene next Thursday are expected to extend the cuts through the end of 2017 or through the first quarter of 2018. It is expected that the United States, Canada and Brazil combined will increase production by 1.2 million barrels per day this year. The main beneficiaries of the production cuts are the U.S. oil producers who are increasing market share considerably.

Economy

The best news this week came on Tuesday with the release of industrial production figures. Industrial production increased by 1.0% in April, while manufacturing output also advanced by 1.0%. Both of these figures were above expectations and these numbers are the best posted since February of 2014. Auto production was up 5.0%, mining output increased by 1.2%, and capacity utilization drifted higher to 76.7%. Oil and gas well drilling has rebounded nicely, posting its 11th consecutive monthly gain. Also on Tuesday monthly housing starts came in well below consensus, declining by 2.6% to 1.172 million units in April. This data was heavily influenced by multifamily starts, which decreased by 9.2%. Single family permits were also lower declining by 4.5% and are now down in three of the past four months. This slowdown in starts is likely to exacerbate an imbalance of supply and demand. On Wednesday the Federal Reserve Bank of New York reported that U.S. households now hold total debt of $12.725 trillion, surpassing the old record of $12.68 trillion set back in 2008. Thursday brought us weekly jobless claims which declined by 4,000 to 232,000 during the week ending May 13th. The four-week moving average is now at 240,750. Finally, the Philadelphia Fed manufacturing survey increased from 22 in April to 38.8 in May. Despite this impressive jump, the underlying metrics came out on the softer side.

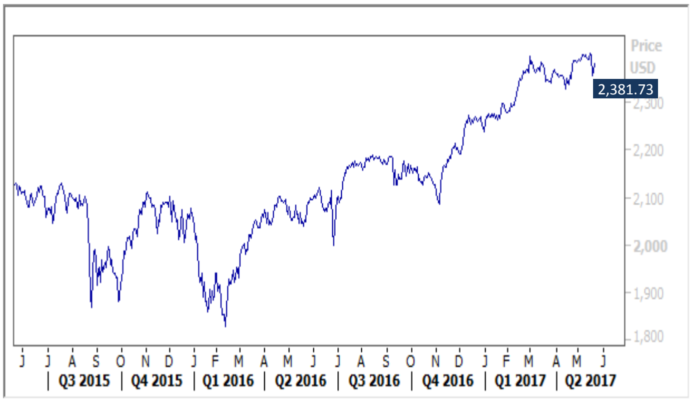
Fixed Income/Credit Market

U.S. Treasury prices finally started to ease on Thursday and Friday after the market experienced the second biggest rally of 2017 in the early part of the week. The rally was sparked amid news of a memo written by the previous FBI Director stating President Trump asked him to drop the investigation of Michael Flynn. Markets are concerned that a protracted investigation could hinder the administration's pro-growth agenda – namely, tax and healthcare reform, deregulation and infrastructure spending. The benchmark 10-year U.S. Treasury yield, which started the week at 2.33%, dipped as low as approximately 2.18% before backing up to 2.23% to close out the day on Thursday. With no major economic releases on Friday, Ben Bernanke's support of steady tightening by the Fed, and concerns about the administration drifting into the background, the 10-year UST yield has climbed back to approximately 2.24%. Week-over-week the yield on the 10-year tenor has decreased 9.1 basis points.

Equities

After several weeks where equity markets digested a mostly positive, but uneventful earnings season, traders experienced a mid-week surprise that knocked over 370 points off the Dow Jones Industrials, the worst daily decline in over eight months. Stocks had recently been trading in a sideways pattern, hovering close to record highs while mostly shrugging off bad news. Complacency was quickly met with an urgency to sell as troubling news of President Trump's possible role in obstruction of justice regarding the Russian investigation circulated around trading floors. News was met with aggressive selling of most post-election winning positions, particularly in bank, financial service and information technology shares. Examples of the carnage included noteworthy names like Bank of America and Charles Schwab that were down as much as 6% intraday. The few buyers sought the perceived safety in low volatility names, particularly utilities, food and beverage as bids appeared in Colgate, Pepsi and many utilities like NextEra Energy that reached a 52-week high. Markets stabilized and partially rallied late week, but appear more concerned now about fading hopes of the overall Trump agenda.

S&P 500



Our View

Volatility picked up dramatically this week as the financial markets reacted to the turmoil in Washington. Allegedly, President Trump asked FBI Director James Comey to drop a probe of his former national security advisor. That revelation ultimately prompted the Justice Department to appoint a special prosecutor to review the matter. President Trump is losing control of the political agenda as he becomes mired in political infighting with both Democrats and establishment Republicans. Given the dysfunction in Washington and the poisonous atmosphere, it appears that tax reform and fiscal stimulus could be sidelined for the time being. The financial markets have been expecting, and perhaps to some extent pricing in, a lift to earnings from tax reform. Tax reform, if done correctly, has the promise of changing the trajectory of economic growth by driving incremental capital formation and indirectly fostering innovation.

COMING UP NEXT WEEK		Est.
05/23 New Home Sales – Units	(Apr)	0.611M
05/26 Durable Goods	(Apr)	-1.3%
05/26 Durables Ex-Transport	(Apr)	0.4%
05/26 GDP 2nd Estimate	(Q1)	0.9%
05/26 GDP Deflator Prelim	(Q1)	2.3%
05/26 U Mich Sentiment Final	(May)	97.5

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