The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

March 9, 2018

As of 03/09/2018		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	25,335.74	797.68	3.25	2.10	2.49	21.47
S&P 500	2,786.57	95.32	3.54	1.85	4.18	17.78
NASDAQ 100	7,101.18	290.14	4.26	0.96	11.02	32.39
S&P MidCap 400	1,949.06	70.45	3.75	1.52	2.55	14.40
Russell 2000	1,597.14	63.97	4.17	1.29	4.02	17.43

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	2.26	Euro/Dollar	1.23	-0.10
5-Year	2.65	Dollar/Yen	106.76	0.94
10-Year	2.89	Sterling/Dollar	1.39	0.30
30-Year	3.16	Dollar/Cad	1.28	-0.54

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

Yesterday, President Trump announced that the U.S. government will impose a 25% tariff on steel imports and a 10% tariff on aluminum imports citing that Chinese overcapacity has driven down prices globally which has created a security risk to our nation. The tariffs apply to all countries with the exception of Canada and Mexico. Tariffs are essentially fees that are levied on goods imported into this country. Ultimately, these tariffs will help domestic steel and aluminum producers but hurt companies that use steel and aluminum in their products and harm consumers who buy products made from these materials. Some analysts have estimated that there are about 80 times the number of companies that use steel and aluminum in their products compared to companies that actually produce these metals. Yesterday's announcement is primarily targeted at China, yet Chinese steel constitutes only 2% of U.S. steel imports and 6% of domestic aluminum imports. By contrast, Canada, Brazil, South Korea and Mexico produce over 55% of U.S. steel imports. The European Union, China, and other nations have already announced that they will retaliate by imposing their own tariffs on a very targeted sample of U.S. industries that are very important both economically and politically. History has shown that trade wars are highly pernicious to all market participants.

Economy

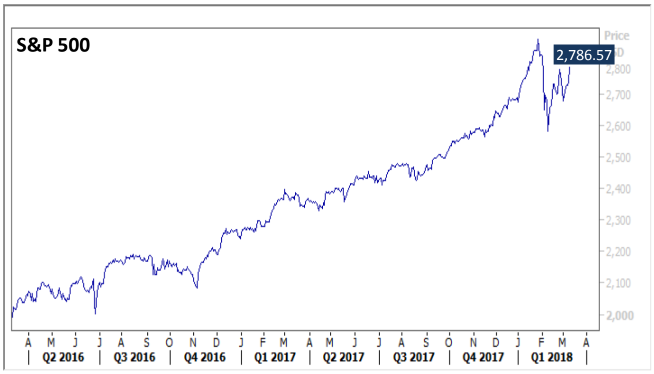
The most anticipated report this week was the nonfarm payroll report, which was released on Friday. This report showed payrolls increasing by 313,000 in February, which was above the consensus forecast of 200,000. The unemployment rate was unchanged at 4.1% and the U-6 measure of unemployment remained at 8.2%. Average hourly earnings increased by 0.1% and are now up 2.6% year-over-year. The labor force participation rate increased from 62.7% to 63.0%. Examining the different employment sectors, manufacturing added 31,000 jobs, construction added 61,000, and professional and business services 50,000. In other news this week, the ISM nonmanufacturing survey came in at 59.5 in February, eclipsing the consensus forecast. The new orders index surged to 64.8, which was the highest reading going back to late 2005. Overall 16 of 18 industries reported growth. On Wednesday, fourth quarter nonfarm productivity growth was revised from -0.1% to 0.0%. Unit labor costs rose 2.5% in the fourth quarter and productivity growth is now +1.1% year-over-year. Also on Wednesday the trade deficit widened for a fifth straight month to $56.6 billion. This figure was higher than expected and the highest level in more than nine years.

Fixed Income/Credit Market

Week-over-week, yields across the U.S. Treasury curve are mostly higher despite some choppiness driven by headline risk. In the U.S., President Trump picked up his rhetoric on protectionist trade policies, Gary Cohn resigned as Director of the U.S. National Economic Council, and concerns over a nuclear armed North Korea abated. Lael Brainard's speech carried a hawkish tone supporting the Fed's planned pace of rate hikes and their ability to anchor inflation expectations back to 2%. The benchmark 2-yr and 10-yr Treasuries ended the week at approximately 2.26% and 2.89%, respectively. Despite this year's increase in U.S. interest rates, the spread between the 2-yr and 10-yr Treasury remains historically flat at approximately 63 bps. Going back to March 31, 1977 when the measure was first recorded, the benchmark is currently trading roughly 31 bps below average. However, this flatness should be seen as a natural occurrence of the Fed normalizing short term interest rates and provides further evidence of a maturing business cycle.

Equities

Equities were impacted by news of political developments and economic data. The week started with the cloud of investor concern over President Trump's recent announcement of tariffs on imported steel and aluminum that could hurt corporations and consumers, in addition to risks of escalating trade wars. Favorable business activity reflected in the ISM Services index sparked life in the equity markets. However, sentiment quickly reversed course and markets fell as the head of the National Economic Council, Gary Cohn stepped down from his role. Later in the week, there was significant news of the Administration providing tariff exemptions to both Canada and Mexico depending on future NAFTA changes and news that North Korea's leader offered to meet with the US president and commit to stop nuclear and missile testing. A strong job report, with wages that were less than feared to fuel inflation, was the final catalyst to drive markets towards a strong weekly close. The market strength was broad based with all sectors in positive territory and strong leadership in financials, biotech and technology.



Our View

Market participants had a great deal of information to interpret and discount this week with the most important being the potential spread of protectionism and the degree of labor market tightness. Investor anxiety started high this week when President Trump's top economic advisor, Gary Cohn, resigned as his attempt to sway the President on imposing steel and aluminum tariffs faltered. Cohn is a proponent of globalism and with his departure there is fear that future potential trade restrictions could weigh heavily on markets as trade wars have a tendency to slow overall economic growth. On Thursday President Trump signed the steel and aluminum tariff order, but stepped back from his hard-lined stance by giving both Canada and Mexico exemptions and opening the door for future potential exclusions. Trade war talks abated Friday morning as the U.S. employment situation took center stage. A little over one month ago volatility spiked when average hourly earnings increased unexpectedly to 2.9% on a yearly basis and thoughts that the Fed would have to increase rates at a more robust pace escalated. The previously mentioned fears were muffled when average hourly earnings reversed their upward trend and slipped back to 2.6% and risk assets rallied. With domestic interest rates entering a trading range and moving laterally over the past few weeks, volatility has trended lower, but that trend could easily be disrupted as protectionism evolves and the Fed continues to tighten monetary policy moving forward.

COMING UP NEXT WEEK		Est.
03/13 CPI MM, SA	(Feb)	0.2%
03/14 PPI Final Demand MM	(Feb)	0.2%
03/14 Retail Sales MM	(Feb)	0.3%
03/16 Housing Starts Number MM	(Feb)	1.290M
03/16 Industrial Production MM	(Feb)	0.3%

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