The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

May 12, 2017

As of 05/12/2017		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	20,896.61	-110.33	-0.53	2.35	5.74	17.92
S&P 500	2,390.90	-8.39	-0.35	1.98	6.77	15.80
NASDAQ 100	5,686.81	40.72	0.72	1.11	16.93	30.95
S&P MidCap 400	1,719.33	-19.19	-1.10	1.73	3.54	18.27
Russell 2000	1,382.77	-14.23	-1.02	1.46	1.87	24.71

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.29	Euro/Dollar	1.09	-0.63
5-Year	1.85	Dollar/Yen	113.32	0.51
10-Year	2.32	Sterling/Dollar	1.29	-0.77
30-Year	2.99	Dollar/Cad	1.37	0.43

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

Relative to historic norms, financial markets around the world are calm. Low market volatility is being seen not only in equity markets but in the fixed income, currency and commodity markets as well. The U.S. stock market's main volatility gauge – the CBOE Volatility Index (VIX) – tracks the expected volatility through options pricing. Earlier this week, the VIX closed at 9.77, its lowest reading since 1993. By comparison, it was almost 90 at the height of the financial crisis. Many are puzzled that it is at a low considering geopolitical anxiety and mixed fiscal signals. Some are even questioning if the index is losing its luster as a predictor of investor nervousness. One long-time emerging markets manager claims that there is an impact from social media. He believes a lot of false information is creating confusion, and people are dismissing the bad news which leads to market calm. Nevertheless, since the VIX was created in 1993, history shows that stocks do better following low VIX readings rather than high ones.

Economy

The most anticipated economic report this week was the retail sales report, which was released on Friday. Retail sales increased 0.4% in April and are now up 4.5% year-over-year (YoY). The all important control category, which excludes food service, autos, gas and building materials advanced by 0.2%. Retail sales figures were revised higher for March by 0.1%. Sales at clothing stores were the biggest drag on the report declining by 0.5%. The best performing sector was online retailers, which increased by 1.4%. Earlier in the week, the JOLTS report (job openings and labor turnover survey) showed 5.743 million job openings in March. The "quits" rate was unchanged at 2.1%, and the layoffs and discharges rates were unchanged at 2.1% and 1.1%, respectively. Job openings were largest in professional and business services (+126,000) and state and local government education (+27,000). Overall, when reviewing the last 12 months, the net employment gain amounts to 2.3 million. On Thursday, the producer price index showed an increase of 0.5% in April, which was above expectations. Producer prices are now up 2.5% YoY. Finally, on Friday, the April consumer price index displayed an advance of 0.2%, which was in line with expectations. The core CPI (excludes food and energy) increased only 0.1%.

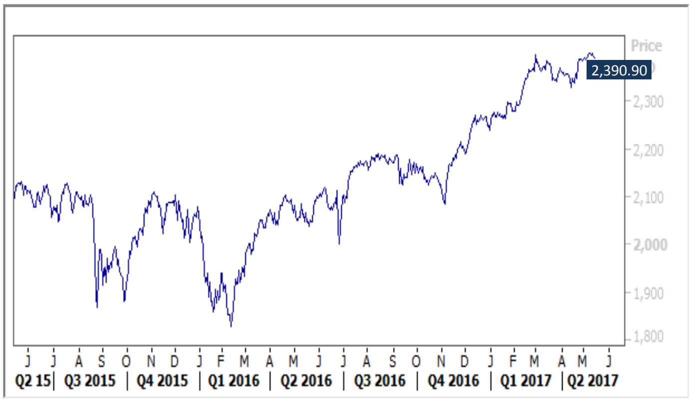
Fixed Income/Credit Market

Fixed income ETF flows thus far in May are up approximately $2.2 billion on a net basis according to Bloomberg. Aggregate bond funds have seen the most demand over the previously mentioned timeframe with net inflows of $1.5 billion, while corporate bonds have seen an outflow of close to $800 million. Taking a closer look at the corporate bond sector reveals that investors are adding to their investment grade positions, while funds are flowing out of high yield bonds. Moreover, the high yield option adjusted spread, which has compressed approximately 36 basis points year-to-date, has sold off by approximately 27 basis points since it hit a low in early March. The accommodative monetary policy that has been pursued by central banks around the world since the financial crisis has lowered the cost of capital and has allowed companies with weak balances sheets and poor coverage ratios to stay in business. However, if tighter monetary policy is able to be implemented, which appears to be the case in the U.S., high yield investors should tread cautiously.

Equities

Equities were lower this week as investors grew progressively more cautious on concerns over consumer demand. With the French elections completed, equities touched new highs on the S&P 500 and the NASDAQ as the week began, but sentiment deteriorated as the week developed. Retail stocks experienced a broad-based selloff due to weak earnings reports and reduced expectations for the balance of 2017. Many retail companies in post-earnings conference calls cited delayed tax refunds and an unseasonably warm February as reasons for the poor earnings, but analysts simply focused on high inventories as a continuing issue. U.S. retail sales for April were released on Friday and also contributed to weakness in consumer stocks. On the positive side of the ledger, the technology sector continued to advance and energy stocks recovered as oil prices had their biggest weekly gain in five weeks. Oil prices were boosted by an expected extension of OPEC's output cuts and by falling domestic crude inventories. The unexpected dismissal of FBI director Jim Comey casts doubt on the forward movement and timing of President Trump's plan for tax reform.

S&P 500



Our View

Markets have been able to shrug off news and events that in the recent past would have rattled market participants. The dysfunction and contention in Washington had minimal negative impact on the equity markets. More significantly, it was not too long ago, investors worried that Federal policy would be too constrictive and would damage the economic recovery. This week, Kansas City President Esther George said not only should the Fed continue to raise rates gradually, but it should begin to shrink the balance sheet later this year. Both fixed income and equity markets largely ignored her comments. It seems that investors are increasingly tuning out the Fed, even as the Fed is actively withdrawing accommodation from the financial system. The market's complacency is clearly related to the very strong first quarter earnings. With over 90% of companies in the S&P 500 having reported first quarter earnings, year-over-year earnings are up over 15%, and 74% of companies exceeded earnings expectations. The insensitivity of financial markets to central bank policy is somewhat disconcerting.

COMING UP NEXT WEEK		Est.
05/15 NY Fed Manufacturing	(May)	8
05/16 Housing Starts Number MM	(Apr)	1.26mln
05/16 Industrial Output MM	(Apr)	0.3%
05/16 Capacity Utilization MM	(Apr)	76.3%
05/16 Manufacturing Output MM	(Apr)	0.3%
05/18 Philly Fed Business Index	(May)	19.8

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