The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

March 23, 2018

As of 03/23/2018		Wk Net	Wk %		YTD %	12 Mos %
STOCKS	Close	Change	Change	Div Yield	Change	Change
DJIA	23,533.20	-1413.31	-5.67	2.26	-4.80	13.93
S&P 500	2,588.26	-163.75	-5.95	1.99	-3.12	10.41
NASDAQ 100	6,508.09	-511.86	-7.29	1.06	1.75	21.53
S&P MidCap 400	1,839.47	-96.18	-4.97	1.63	-3.21	8.43
Russell 2000	1,510.08	-75.97	-4.79	1.33	-1.66	11.57

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	2.25	Euro/Dollar	1.24	0.49
5-Year	2.60	Dollar/Yen	104.72	-1.24
10-Year	2.82	Sterling/Dollar	1.41	1.38
30-Year	3.06	Dollar/Cad	1.29	-1.60

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

There is something for everyone in the $1.3 trillion government spending bill that was signed today by the president. Our lawmakers narrowly met the 12:00 Friday night deadline to fund our government through September in order to avert the third federal government shutdown in 62 days. With this spending increase, our budget deficit is expected to balloon to more than $800 billion this year. The bill contains an $80 billion increase in defense spending which is the most in 15 years. $10 billion is allotted for infrastructure improvements in airports, highways, railroads and broadband, while a $2.8 billion increase is set aside for the treatment, prevention and research of opioid dependency. Almost $1.6 billion will be spent on building barriers along the Mexican border, and more money will be spent on border agents. The construction will include 33 miles of new fencing as well as 60 miles of "replacement or secondary fencing." Money is also carved out to counter Russian influence in our elections in 2018. Furthermore, there will be a $307 million increase to combat general cyberattacks from Russia and $380 million to help states secure their election equipment. Finally, money is appropriated to improve compliance with national background checks for gun purchases as well as new research on gun violence.

Economy

The most anticipated report this week was the durable goods report, which was released on Friday. Overall orders for durable goods increased by 3.1% in February, reversing much of the 3.5% decline reported for January. The best news was centered in the "core" data which exclude aircraft and defense. Core capital goods orders increased by 1.8%, and core capital goods shipments advanced by 1.4%. These particular metrics have been soft or even negative the last several months. With these recent figures, real equipment spending should post an impressive number once all the first quarter data is reported. On Wednesday we were pleased to see existing home sales increase by 3.0% in February to 5.54 million units. These sales are now up 1.1% year-over-year, and the median price of an existing home has increased to $241,700. Weekly jobless claims were reported on Thursday and showed an increase of 3,000 to 229,000 during the week ending March 17th. The four-week moving average is now at 224,000. Finally on Friday new home sales for February displayed a 0.6% decline to 618,000 units. There were also upward revisions made to the sales data for November, December and January totaling 54,000.

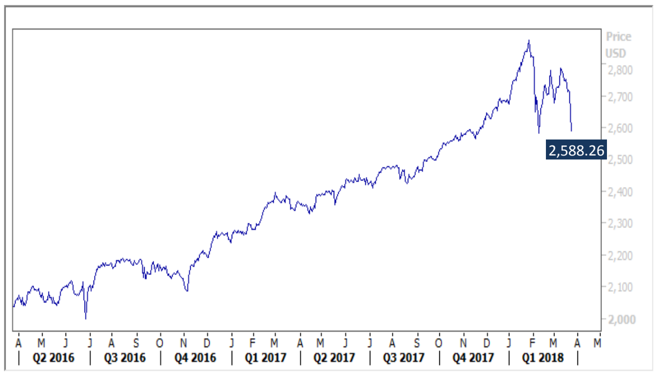
Fixed Income/Credit Market

On Thursday, the U.S. Treasury reopened and auctioned $11B 10-Year TIPS (Treasury Inflation Protected Securities). Using the bid-to-cover ratio as a measure of demand, Thursday's reopening produced a 2.56 ratio vs January's 2.69 ratio, indicating inflation expectations may have subsided. Thursday's results drew a .76% yield, while January's yield was approximately .55%. The difference in yield can be attributed to increased GDP growth projections for 2018 as well as the markets factoring in Wednesday's 25 bps Fed Funds rate increase. Despite the figures mentioned above, demand for 10-Year TIPS was strong on Thursday as the auction was a reopening of the previous issue. Reopenings historically produce bid-to-cover ratios closer to 2.4, so the 2.56 ratio on Thursday indicated inflation expectations remain. Additionally, TIPS are not seasonally adjusted; therefore, elevated January CPI prints drive demand higher. Furthermore, January's auction preceded the FOMC meeting when the markets were anticipating the possibility of potentially four rate hikes in 2018.

Equities

The DJIA, S&P 500 and NASDAQ experienced their worst week since February's selloff due to concerns that the Trump administration's tariffs will lead to a trade war. Global equities were also negatively impacted, especially Asian markets that could be disproportionally affected by U.S. tariffs. The U.K. equity market already struggling with the uncertainty regarding Brexit fell to a one year low. In addition to trade concerns, equity market volatility was elevated by the Federal Reserve's rate increase on Wednesday and pressure on technology shares due to Facebook's tumultuous week. The technology sector, which is still in positive territory for the year, was the worst performing sector as traders took profits in sectors that have exhibited relative strength in 2018. Financials and healthcare were also laggards on the week. All sectors were down, but energy stocks were only down fractionally.

S&P 500



Our View

Global equity markets sold off sharply last week largely related to increasing concerns regarding a potential trade war. Trade fears were stoked when the Trump administration announced an additional $60 billion in tariffs and tighter restrictions on technology transfers. According to the U.S. Trade Representative Robert Lighthizer, the U.S. will impose 25 percent duties on selected Chinese products to compensate for harm caused to the American economy from Chinese trade policies. Additionally, the U.S. action is a response to past Chinese efforts to obtain technology from U.S. companies through intimidation and state-financed acquisitions. Clearly, the Trump administration holds a core belief that the Chinese are not fair traders. China answered with $3 billion worth of retaliatory tariffs, which seems to be a very measured response. Commerce Secretary Wilbur Ross suggested that the strong stand on trade will bring negotiations and concessions without escalating into a broad-based trade war. Hopefully, Mr. Ross's assessment is correct. Trade tensions between the two largest economic powers is certainly a cause for investor concern. The timing of increased economic tensions coincides with a period where the Chinese have become much more assertive regarding their interests in the South China Sea. Apart from purely economic considerations, rising trade tensions introduces another element to geopolitical risk.

COMING UP NEXT WEEK		**Est.**
03/27 Consumer Confidence	(Mar)	131.0
03/28 GDP Final	(Q4)	2.6%
03/29 Personal Income MM	(Feb)	0.4%
03/29 Consumption, Adjusted MM	(Feb)	0.2%
03/29 Chicago PMI	(Mar)	62.0
03/29 U Mich Sentiment Final	(Mar)	102.0

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