# The Weekly

## Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

January 26, 2018

| As of 01/26/2018 | | Wk | Wk | | YTD | 12 Mos |
|---|---|---|---|---|---|---|
| | | Net | % | Div | % | % |
| **STOCKS** | Close | Change | Change | Yield | Change | Change |
| DJIA | 26,616.71 | 544.99 | 2.09 | 1.97 | 7.68 | 32.42 |
| S&P 500 | 2,872.87 | 62.57 | 2.23 | 1.76 | 7.34 | 24.96 |
| NASDAQ 100 | 7,022.97 | 188.64 | 2.76 | 0.96 | 9.80 | 36.19 |
| S&P MidCap 400 | 1,995.23 | 16.03 | 0.81 | 1.48 | 4.94 | 16.98 |
| Russell 2000 | 1,608.06 | 10.43 | 0.65 | 1.30 | 4.68 | 16.85 |

| **TREASURIES** | Yield | **FOREX** | Price | Wk %Change |
|---|---|---|---|---|
| 2-Year | 2.12 | Euro/Dollar | 1.24 | 1.60 |
| 5-Year | 2.47 | Dollar/Yen | 108.70 | -1.89 |
| 10-Year | 2.66 | Sterling/Dollar | 1.41 | 2.09 |
| 30-Year | 2.91 | Dollar/Cad | 1.23 | -1.36 |

Source: Thomson Reuters & Bloomberg

### What Caught Our Eye This Week

There is a shortage of trucks used for transporting goods in the United States. In the spot market, where trucks are ordered on short notice, for each available truck there are 10 loads waiting to be delivered. This is the widest disparity in about 12 years. This ratio was 1:3 last year. Pricing for a standard rig has increased by 20% over the past year. For some specialty trucks, pricing has doubled. These challenges are a direct result of our strengthening economy. The health of our country's manufacturing sector as measured by the ISM manufacturing index is the highest in almost 7 years. Additionally, retail sales have been strong; this past holiday season was the strongest in six years. The recent snowstorms have also slowed shipments. Finally, new rules were issued in December which mandate electronic logging devices (ELDs) for trucks. This new technology tracks drivers' hours and forces drivers to stay within regulatory driving-time limitations causing some routes to take an additional day for delivery. Trucking companies are in turn hiring more people, raising pay, and ordering more trucks. According to ACT Research, carriers ordered 37,500 new trucks in December. Given that ELD rules will begin to be enforced in April, a seasonally strong time of the year, these transportation challenges will remain for some time to come.

### Economy

The economic headliner this week was Friday's report on fourth quarter real GDP. This was the first look at Q4 GDP and these figures came in below expectations rising by 2.6%. Consumer spending, the largest part of the economy, increased by 3.8% which was the quickest pace in three years. Inventory investment was a drag on GDP subtracting 0.67% from growth. Business investment in equipment advanced by 11.4% and real domestic final sales increased by 4.3%. There will be two more reports on fourth quarter GDP with the next analysis coming on February 28th. In other news this week, existing home sales data came in below expectations decreasing by 3.6% in December to 5.57 million units. Overall in 2017 existing home sales increased by 1.1%, which was the best year since 2006. New home sales figures were reported on Thursday and showed a sharp decline of 9.3% to 625,000 units in December. Over the past 12 months, new home sales have advanced by 8.3%. Finally, orders for durable goods were released on Friday and showed a second consecutive increase rising 2.9% in December. Core capital goods orders which excludes defense and aircraft decreased by 0.3%, and core capital goods shipments increased by 0.6.

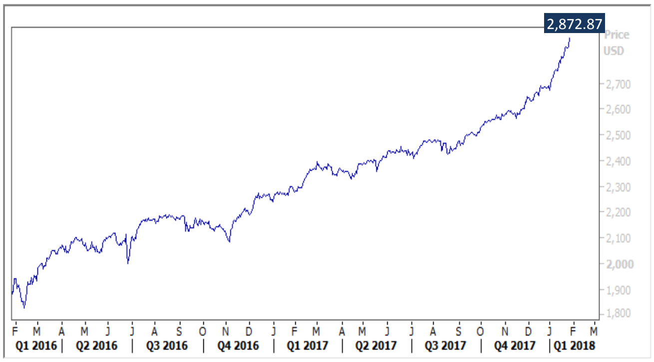
### Fixed Income/Credit Market

The 10-year municipal debt backed by the state of New Jersey is currently trading at approximately 58.3 basis points (bps) above the Bloomberg 10-year AAA municipal index, roughly 40.8 bps below the one-year average. Over the same one-year period, yields have fluctuated from a low of 2.67% on December 14, 2017 to a high of 3.52% on March 14, 2017. The current 58.3 spread is roughly 3.5 standard deviations below the one-year average. New Jersey's visible 30-day supply is $165.5MM while the amount of debt expected to retire is $814.9MM, equating to net supply of negative $649.4MM. As supply and demand dynamics have pushed municipal bond prices higher, selective high quality NJ municipal bond issuers remain attractive. This week a AA-rated NJ issuer sold 10-year bonds at a yield of 2.55%, which has a taxable equivalent yield of 4.73% for NJ residents in the highest tax bracket. Compared to Bloomberg composite AA corporate bonds which are trading at 3.29%, NJ muni investors pick up approximately 144 bps of incremental yield.

### Equities

The equity market continued its upward trend into record territory. The market was driven by strong earnings reports and an associated uptick in earnings expectations for future quarters. With roughly 27% of the S&P 500 companies having already reported, over 80% have beat revenues and earnings expectations. The magnitude of revenue and earnings growth is also impressive at 8% and 11%, respectively. Price strength was broad based, with appreciation in all 11 of the S&P 500 sectors. Although growth style continued to outperform value, the two style returns were relatively close during the week. International markets were also lifted by the growing global economy and the weakening US dollar (which lifts foreign investments relative to the dollar). Next week is a very busy reporting period, with 118 companies reporting in several key sectors including energy, healthcare and technology. Investors will also be closely watching inflation data which has been surprisingly constrained despite solid economic growth.

**S&P 500**




### Our View

Abundant and freely flowing liquidity coupled with coordinated global economic growth fueled the risk-on theme that drove investment returns in 2017 and has continued thus far in 2018. Year-to-date, the global equity market is up over 6.6% in less than one month. From a valuation perspective, the global equity market is trading at 21.3 times trailing 12-month earnings, which is expensive when compared to the 10-year median of 17.1. However, forward 12-month earnings expectations are extremely robust which allows the forward price to earnings ratio to fall closer to the 10-year median. If earnings expectations continue their upward trajectory, equity valuations should be supported but there are other risk factors to consider. One of the main risks apparent in the domestic market right now centers around inflation. Moreover, with consumer confidence high, leading economic indicators accelerating and the dollar depreciating, inflation could increase more rapidly than the Fed currently anticipates. The 5-year forward breakeven inflation rate according to the Treasury Inflation Protected Securities market (TIPS) currently stands at 2.02%, which is up 18 basis points in the last month, but is still slightly below the 1-year high of 2.06%. With the FOMC scheduled to meet next week, it will be interesting to see if they make any adjustments to their inflation expectations.

| COMING UP NEXT WEEK | | Est. |
|---|---|---|
| 01/30 Consumer Confidence | (Jan) | 123.0 |
| 02/01 ISM Manufacturing PMI | (Jan) | 59.0 |
| 02/02 Non-Farm Payrolls | (Jan) | 178K |
| 02/02 Unemployment Rate | (Jan) | 4.1% |
| 02/02 Factory Orders MM | (Dec) | 0.8% |
| 02/02 U Mich Sentiment Final | (Jan) | 95.0 |

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