# The Weekly

## Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

October 20, 2017

| As of 10/20/2017 | | Wk | Wk | | YTD | 12 Mos |
|---|---|---|---|---|---|---|
| | | Net | % | Div | % | % |
| **STOCKS** | Close | Change | Change | Yield | Change | Change |
| DJIA | 23,328.63 | 456.91 | 2.00 | 2.20 | 18.04 | 28.45 |
| S&P 500 | 2,575.21 | 22.04 | 0.86 | 1.95 | 14.94 | 20.18 |
| NASDAQ 100 | 6,108.82 | 16.36 | 0.27 | 1.09 | 25.60 | 26.41 |
| S&P MidCap 400 | 1,834.29 | 15.47 | 0.85 | 1.55 | 10.46 | 20.05 |
| Russell 2000 | 1,509.25 | 6.59 | 0.44 | 1.33 | 11.18 | 23.70 |

| **TREASURIES** | Yield | **FOREX** | Price | Wk %Change |
|---|---|---|---|---|
| 2-Year | 1.57 | Euro/Dollar | 1.18 | -0.37 |
| 5-Year | 2.02 | Dollar/Yen | 113.50 | 1.46 |
| 10-Year | 2.38 | Sterling/Dollar | 1.32 | -0.77 |
| 30-Year | 2.89 | Dollar/Cad | 1.26 | 1.23 |

Source: Thomson Reuters & Bloomberg

### What Caught Our Eye This Week

Monetary policy has never looked so cloudy. Four of the seven governor seats on the Federal Reserve Board are vacant. In addition, the Chair's (Janet Yellen) term expires in February. President Trump has an opportunity, with senate confirmation, to reshape the board for his own purposes. However, he does not have complete control over monetary policy since the Federal Open Market Committee, which decides our country's interest rate policy, has 12 voting members. As the President interviews candidates for the job of Chairman, his goal seems two-fold: 1) bias towards keeping interest rates low and 2) desire to unwind regulations set during the financial crisis, specifically, the Dodd-Frank Law. Of the five candidates interviewed, two represent continuity: current Chair Janet Yellen, a democrat, and Jerome Powell, a republican. If the President likes the current monetary policy but wants less regulation he might go with Mr. Powell. If the President decides to favor a businessman or an academic, he might choose John Taylor. If this is the case, be prepared for higher interest rates. Since the Federal Reserve Board operates by consensus, it puts a premium on the Chairman's ability to persuade and compromise.

### Economy

This week's economic releases started off strong with the Empire State Manufacturing Index increasing to 30.2 in October from 24.4 in September. This beat consensus estimates of 20.4 and tied the index's highest level since late 2009. On Tuesday, we saw industrial production rebound after suffering from Hurricane Harvey's landfall in August. Industrial production increased 0.3% in September, matching consensus expectations, and is now up 1.6% over the past twelve months. Although we saw a recovery in industrial production, the storms continue to negatively impact housing starts. In September, housing starts declined 4.7% to a 1.127 million annual rate which was well below the consensus expectation of 1.175 million. Multifamily starts declined 5.1% but are up 6.8% year-over-year, and single family starts were down 4.6% but are up 5.9% year-over-year. In other news, weekly jobless claims fell to its lowest level in more than 44 years dropping by 22,000 to 222,000 during the week ending October 13th. The four-week moving average fell 9,500 to 248,250. Finally, on Friday, existing home sales unexpectedly rose 0.7% to 5.39 million last month. This number came in above consensus estimates of 5.30 million.

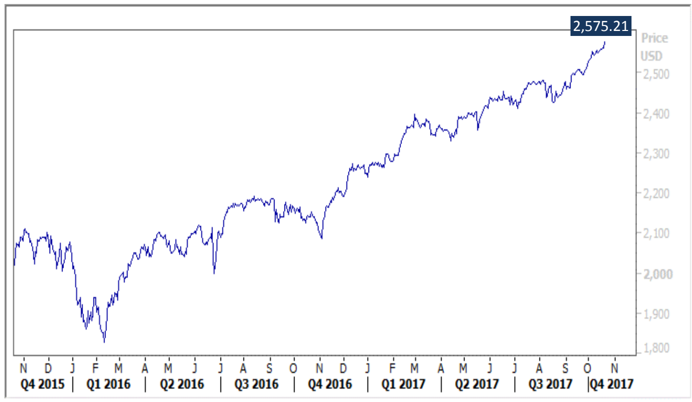
### Fixed Income/Credit Market

On Thursday, the U.S. Senate adopted a fiscal 2018 budget resolution which helped reignite optimism surrounding President Trump's proposed policy changes, particularly the implementation of tax cuts. The renewal of confidence could be felt in the markets as interest rates across the U.S. Treasury curve increased anywhere from approximately 8.2 basis points (bps) to 12.2 bps on the week. The 1-year forward U.S. Treasury curve, according to Bloomberg, indicates that interest rates are expected to increase an additional 27 bps and 19 bps at the 5-year and 7-year tenors, respectively. In just a three-week span, the expected total return 1-year forward on both the 5-year and 7-year Treasuries has increased 19 bps. Additionally, during that same three-week period, duration risk has decreased 15 bps and 7 bps at the 5-year and 7-year tenors, respectively. While there has been a favorable shift in interest rates and duration for investors, duration risk should still be taken with caution.

### Equities

U.S. stocks posted modest gains this week as investors reacted to Q3 corporate earnings. The gains put the major averages at record highs once again. According to Bloomberg, 88 companies have reported for the S&P 500 and earnings are up 8% from the same period last year. To date, approximately 75% of the companies that have reported showed positive earnings growth while approximately 85% had positive sales growth. The financial sector was the best performer sector of the week, reacting to higher interest rates as well as the passing of the Senate budget resolution and renewed hope for tax reform. Additionally, a number of financial companies reported earnings that beat expectations. Healthcare and industrials also closed the week higher. The worst performing sector was consumer staples followed by energy with WTI crude falling below $52 a barrel.

### S&P 500




### Our View

The risk-on trade continued this week with large cap U.S. equities hitting new highs and U.S. Treasury yields widening approximately 10 basis points at the longer end of the curve. The main catalyst behind the bullish equity sentiment was the forward movement of possible tax reform with the Senate approving a fiscal 2018 budget. The next step will be for the House of Representatives to vote in favor of the budget, which will then open up a special procedure that allows the Republicans to potentially pass tax reform without the necessity of Democratic support. Looking back on how the Republicans were not able to reach a consensus on repealing and replacing Obamacare, some may question their ability to agree on tax reform. However, the markets are indicating that the Republicans will be more willing to compromise with each other on tax reform because failure to do so could hinder the party going into the 2018 midterm elections. At this point, a rough framework for tax reform has been proposed and it will be up to the House and Senate tax-writing committees to fill in the details of the legislation, which will then be heavily negotiated by numerous interests given the tremendous weight of what is at stake.

| COMING UP NEXT WEEK | | Est. |
|---|---|---|
| 10/24 Markit Mfg PMI | (Oct) | 53.6 |
| 10/25 Durable Goods | (Sep) | 1.1% |
| 10/25 New Home Sales | (Sep) | 0.560M |
| 10/26 Initial Jobless Claims | (w/e) | 233k |
| 10/27 U Mich Sentiment Final | (Oct) | 101.0 |