The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

April 20, 2018

As of 04/20/2018		Wk Net	Wk %	Div	YTD %	12 Mos %
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	24,462.94	102.80	0.42	2.19	-1.04	18.88
S&P 500	2,670.14	13.84	0.52	1.95	-0.13	13.34
NASDAQ 100	6,667.75	39.41	0.59	1.04	4.24	22.49
S&P MidCap 400	1,900.50	16.64	0.88	1.60	0.00	10.43
Russell 2000	1,564.12	14.61	0.94	1.31	1.86	13.00

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	2.46	Euro/Dollar	1.23	-0.38
5-Year	2.80	Dollar/Yen	107.65	0.27
10-Year	2.96	Sterling/Dollar	1.40	-1.67
30-Year	3.15	Dollar/Cad	1.28	1.16

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

According to a study published in the Journal of the American Medical Association, U.S. spending on health care is twice as much as other developed nations. Health care spending accounts for almost 18% of the U.S. GDP, compared to 9.6% - 12.4% for peer nations. Researchers discovered that Americans used health care at similar rates as their peers and the differences came in higher labor, administrative and drug costs. This gap and the challenges it poses for American consumers was and is a major impetus for health care reform. Enter Amazon. Well, not so fast. While Amazon has disrupted other industries, the health care and pharmaceutical supply chain (pharmacy benefit managers, wholesalers, retailers) is extremely difficult to enter. Health care is highly regulated and reimbursement depends on relationships with payors. While Amazon has received approval for pharmacy licenses in 12 states, this only covers wholesale distribution and medical equipment, and it does not permit direct shipment of pharmaceuticals to consumers. This week it was reported that Amazon has put its plans to sell drugs to hospitals on hold. The company will continue exploring future opportunities in the health care field.

Economy

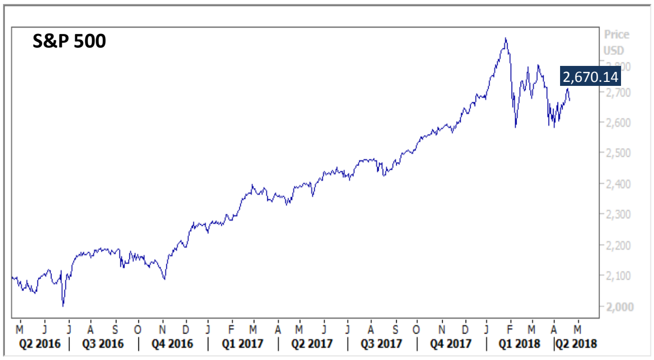
The most anticipated report this week was the retail sales report, which was released on Monday. Retail sales increased 0.6% in March and are now up 4.5% year-over-year. The all important control category, which excludes food service, autos, gas and building materials advanced by 0.4%. Overall, the gain in sales was led by autos and non-store retailers. Motor vehicle sales increased by 2.0% and non-store retailers increased by 0.8%. It now appears that real consumption for the first quarter is tracking 1.1% annualized growth. On Tuesday, we were pleased to see housing starts increase by 1.9% to 1.319 million units at an annual rate. These figures were better than expected and housing starts are now up 10.9% year-over-year. On the negative side, single-family starts declined by 3.7% and single-family permits declined by 5.5%. Single-family homes contribute significantly more to GDP data than does multi-family. Also on Tuesday industrial production rose 0.5% in March beating the consensus expectations. Over the past 12 months, industrial production is up 4.4%, which is the best yearly increase since 2011. Utilities led the increase in March surging by 3.1%.

Fixed Income/Credit Market

Week-over-week benchmark interest rates across the U.S. Treasury curve increased anywhere from 10 basis points (bps) to 14 bps from the 1-yr to 30-yr tenors. In particular, the 2-yr and 10-yr tenors increased approximately 10 bps and 13 bps, respectively, which widened the 2-yr and 10-yr spread, roughly 3 bps to 50 bps. The main short-term driver of higher yields appears to be the continued message out of FOMC participants reiterating that the current path of interest rate normalization appears to be appropriate. The Fed Funds Futures December of 2018 contract increased 4.5 bps this week to 2.17%, which indicates the market is now beginning to price in 4 total 25 bp rate hikes in 2018. Looking further out on the yield curve, the nominal yield on the 10-yr Treasury reached a new year-to-date high and closed at 2.96%. The U.S. 10-yr breakeven inflation rate is now approximately 2.18%, which is the highest level since August of 2014 and is up 12 bps in April thus far and is most likely getting a boost from the recent increase in commodity prices.

Equities

Equity markets were volatile this week due to active corporate earnings reporting and continued geopolitical headlines. Markets rallied early in the week due to strong housing starts and positive surprises in earnings reports. However, the strength faded as bond rates pushed higher hurting sectors with higher P/E multiples. The decline of consumer staples sector was triggered by a few large staple companies that reported disappointing earnings. Generally, the negative earnings surprises were caused by competitive conditions impacting pricing. Several analysts downgraded a number of bell weather names in the sector. Despite relatively flat price performance of the broader technology sector, the semiconductor companies fell over 4% for the week due to the world's largest contract chipmaker, Taiwan Semiconductor (TSMC), lowering its guidance for revenue growth. TSMC attributed the revision to softness in smartphone production. Energy stocks demonstrated strength during the week as oil prices pushed toward recent highs on tighter supply, strong demand and geo-political concerns. Next week's corporate reporting picks up with a very busy calendar, including high profile technology companies.



Our View

We often focus our comments on issues likely to impact the financial markets over the immediate 12-month investment horizon. Over the next year, there does not appear to be a systemic concern that will derail either financial markets or the economy. Interest rates remain historically low, global GDP growth is solid and corporate earnings are accelerating. Other than geopolitical events, which are by nature unpredictable, inflation expectations getting ahead of the Federal Reserve seems to us to be the most meaningful risk. As we expand the time horizon from three to five years, global debt becomes a significant consideration. The International Monetary Fund said that global debt is at a historic high reaching 225% of GDP. Global debt has exploded since the Great Recession mainly related to the fiscal policy response to the crisis, as well as increased spending in emerging economies. The debt concern is heightened because the two largest economies, the U.S. and China, are major culprits in the growing debt problem. China is responsible for three-quarters of the expansion of global debt since 2008. The U.S. national debt currently exceeds $21 trillion (roughly $174,200 per taxpayer), and we are running a deficit that will approach $750 billion in 2018. The IMF predicts deficits will average over $1 trillion in the next three years. Investors have largely ignored the growing debt burden both in the U.S. and globally. If current trends are not addressed, especially with potentially higher interest rates, the cost of interest rate servicing will eventual impact standards of living and economic activity.

COMING UP NEXT WEEK		Est.
04/24 Consumer Confidence	(Apr)	126.0
04/26 Durable Goods	(Mar)	1.1%
04/27 GDP Advance	(Q1)	2.0%
04/27 Core PCE Prices Advance	(Q1)	2.5%
04/27 U Mich Sentiment Final	(Apr)	98.0