The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

November 3, 2017

As of 11/03/2017		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	23,539.19	105.00	0.45	2.18	19.11	31.28
S&P 500	2,587.84	6.77	0.26	1.92	15.55	23.86
NASDAQ 100	6,295.58	82.11	1.32	1.05	29.44	34.55
S&P MidCap 400	1,835.98	-3.14	-0.17	1.55	10.56	24.33
Russell 2000	1,494.91	-13.41	-0.89	1.34	10.13	29.19

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.61	Euro/Dollar	1.16	-0.04
5-Year	1.99	Dollar/Yen	114.07	0.33
10-Year	2.33	Sterling/Dollar	1.31	-0.46
30-Year	2.81	Dollar/Cad	1.28	-0.34

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

The world's most important central bank, the U.S. Federal Reserve, will have a new leader next February. Jerome Powell has been selected to replace Janet Yellen as the Federal Reserve Chairman. The change marks the 9th leadership change at the Fed since WWII and comes at a critical and delicate time. With tax cuts on the horizon, there will be even more demands on the economy. The dilemma is this, raise rates too quickly – risk stalling the US expansion, tighten too slowly – risk inflation. Mr. Powell will become the first Fed Chair without a PhD in economics in three decades. This may not be an issue because there are many formally trained economists throughout the Fed Reserve System. A lawyer by education, Mr. Powell's career has been in the financial industry. His understanding of the markets will be crucial, but with less background in macroeconomics, he is likely to rely on the other members of the board. Regarding monetary policy, he represents continuity. He is expected to maintain the Fed's existing course with interest rates. However, he has been more open to deregulation than Chair Yellen. He has expressed support for "recalibrating" regulation and highlighted areas where the post-crisis rules could be eased.

Economy

The most anticipated report this week was the nonfarm payroll report, which was released on Friday. This report showed payrolls increasing by 261,000 in October, which was below the consensus forecast of 310,000. The unemployment rate declined to 4.1% and the U-6 measure of unemployment decreased to 7.9%. The U-6 measure has not been this low since December of 2006. Average hourly earnings were unchanged and are now up 2.4% year-over-year. Examining the different employment sectors, manufacturing added 24,000 jobs, construction added 11,000 and 106,000 leisure and hospitality workers returned to work. The labor force participation rate decreased to 62.7%, which is still low by historical standards. In other news this week, personal income displayed a 0.4% increase in September while personal consumption advanced by 1.0%. Year-over-year personal income is up 3.0% and personal consumption is up 4.4%. On Wednesday, the ISM manufacturing survey showed a small decrease drifting from 60.8 in September to 58.7 in October. Overall, 16 of 18 manufacturing industries reported growth. Finally, nonfarm productivity data was released on Thursday and showed an impressive gain of 3% in the third quarter. This was the strongest productivity report in three years.

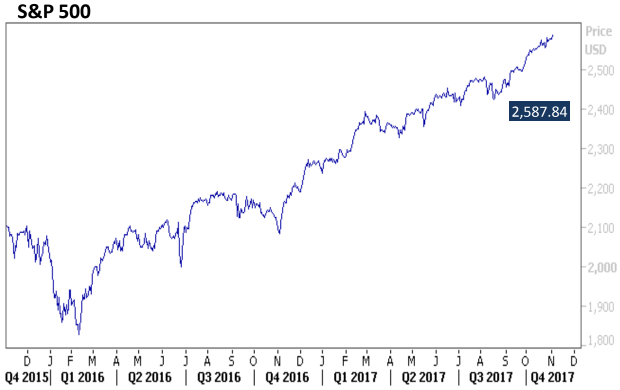
Fixed Income/Credit Market

October was a tough month for performance in all the fixed income sectors that we follow. Longer-duration international treasuries were the top performer, returning just 0.62%. The next best performing sector was shorter-duration high yield corporate bonds (0 – 5 years) which returned only 0.29%. The worst performing sectors in October were shorter-duration international treasuries and preferred equity returning -0.76% and -0.37%, respectively. With interest rates on the 2-year and 3-year U.S. Treasuries increasing month-over-month 11.6 bps and 10.3 bps, respectively, short-term U.S. Treasuries also provided negative returns at -0.09%. The 2-year and 10-year U.S. Treasuries end the week at approximately 1.61% and 2.33%, respectively.

Equities

Equity markets this week were busy digesting many noteworthy events, including the indictment of President Trump's former campaign manager, a Fed meeting, President Trump's Fed Chair decision and the release of the House tax plan. Despite the significance of these items, the limited surprises within the announcements enabled the market to remain relatively steady for the week. Although the tax plan encompasses several pro-growth reforms and deficit implications, perhaps the muted market response was due to the possible variations of the Senate version that is expected next week. Corporate third quarter earnings reports continued to show aggregate earnings growth and positive surprises. That said, the market has punished the few companies showing disappointments. One such area that has experienced disappointment is the healthcare sector, where pipeline concerns have weighed on the sector's performance. On the positive side, the strong price trend of oil has lifted energy stocks this week.

S&P 500



Our View

Consumers and investors are brimming with confidence. The consumer confidence index for October increased to 125.9 which was the highest reading in seventeen years. Both the current conditions and the expectations components rose to levels we have not seen since prior to the Great Recession. It is relatively easy to understand why consumers are feeling so positive. Jobs are plentiful and wages are rising faster than the general level of prices. In the consumer confidence survey 36.3% indicated that jobs were easy to find which was the highest level since January of 2004. Conditions seem good for healthy retail spending over the holiday season. Investors' confidence has allowed the financial markets to shrug off uncertainty that would normally cause consternation and concern. The naming of a new Fed Chair during a period of rising interest rates and extended valuations would usually cause some financial market volatility. Typically, concern would show up in credit markets first, but credit markets are remarkably sanguine. Credit spreads in the 5-year tenor for both corporates and high yield sectors of the bond market are exceptionally tight, with investment grade and high yield spreads above treasuries only 58 and 249 respectively. Tight spreads indicate that bond investors are extremely confident in the near-term future. History suggests that when investors become too confident and do not demand a reasonable risk premium, markets find a reason to correct and bring a dose of reality to investors.

COMING UP NEXT WEEK		Est.
11/06 Senior Loan Officer Survey	(4Q)	-
11/07 JOLTS Job Openings	(Sep)	6.080M
11/07 Consumer Credit	(Sep)	18.50B
11/10 U Mich Sentiment Prelim	(Nov)	100.9
11/10 Federal Budget	(Oct)	-