The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

January 20, 2017

As of 01/20/2017		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	19,827.25	-58.48	-0.29	2.41	0.33	24.84
S&P 500	2,271.31	-3.33	-0.15	2.06	1.44	21.51
NASDAQ 100	5,063.20	3.69	0.07	1.19	4.10	22.22
S&P MidCap 400	1,675.68	-11.72	-0.69	1.68	0.91	33.32
Russell 2000	1,351.85	-20.20	-1.47	1.42	-0.39	35.55

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.19	Euro/Dollar	1.07	0.49
5-Year	1.94	Dollar/Yen	114.60	0.04
10-Year	2.47	Sterling/Dollar	1.24	1.57
30-Year	3.05	Dollar/Cad	1.33	1.57

Source: Thomson Reuters

What Caught Our Eye This Week

Initial Public Offerings (IPOs) serve as a barometer for investor sentiment. Newly issued stocks are often deemed more risky due to their smaller size and relative immaturity. So more IPOs indicate a higher risk appetite from stock investors and can reflect confidence in the markets as well as the economy. For U.S. companies, 2016 was the slowest IPO market in more than a decade. The number of IPOs fell by 16% year-over-year and the amount of capital raised fell 33%. The market fall off in the first quarter, Brexit, and the U.S. Presidential election created uncertainty and hurt confidence. Another factor contributing to the lower number of IPOs is that startups are staying private for a longer time due to the venture capital industry expanding the number of pre-IPO funding rounds. The average age of a company going public in 1999 was four years and in 2014 it was eleven years. This has led to an increase in companies going public with valuations exceeding $1 billion. One of the largest IPOs expected this year is Snap Inc., the social media company, expected to have a valuation of $20 - $25 billion. Overall, 2017 is expected to be a better year for IPOs .

Economy

It was a light week on the economic front, but overall the news was positive. On Wednesday, we were pleased to see industrial production figures advance by 0.8% in December. This was the largest monthly gain since 2014. Manufacturing output increased by 0.2%, auto production was up 1.8% and capacity utilization rose to 75.5%. The best news was oil and gas well drilling increasing by 9.4%, and posting its seventh consecutive monthly gain. Also, on Wednesday, the consumer price index rose 0.3% in December, and is now up 2.1% year-over-year. Ironically, this metric is now above the Federal Reserve's inflation target of 2.0%. The "core" CPI, which excludes food and energy prices, increased by 0.23% in December and is the strongest gain since last August. Thursday brought us monthly housing starts numbers, which displayed a healthy advance of 11.3% to 1.266 million in December. Single family permits increased by 4.7% in December marking the fifth straight monthly gain for this series. Overall housing starts are up 5.7% year-over-year. Finally and also on Thursday we were happy to see weekly jobless claims decline by 15,000 to 234,000 during the week ending January 14th.

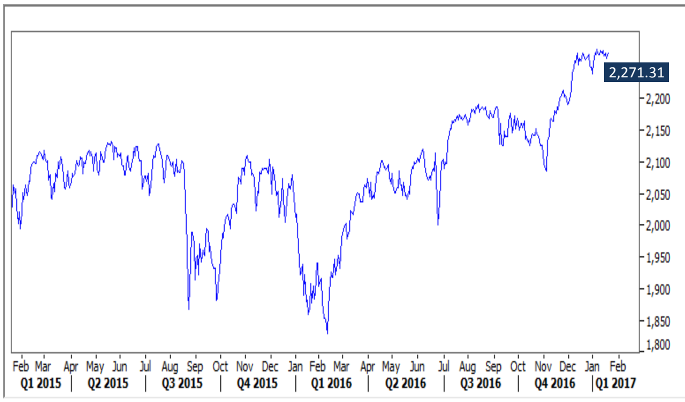
Fixed Income/Credit Market

Janet Yellen spoke two times this past week and in both speeches, she indicated the U.S. economy is stable enough to withstand additional rate increases at a gradual pace. Due in part to the Fed's balance sheet runoff and the potential elimination of the Fed's reinvestment in new bonds, the yield on the 10-year Treasury note could increase 15 basis points this year, equivalent to a 50 basis point increase to the Fed funds rate. The FOMC is monitoring global economic conditions and all future changes in the Fed funds rate will be data dependent. The implied probability of a Fed rate hike at the next meeting in February is now 14.5%. Moreover, the Fed funds futures market is predicting that the Fed funds rate will be 1.12% in December of this year, which implies the Fed may hike rates twice this year. The Treasury market was mixed with the two-year Treasury compressing approximately 0.5 basis points and the 10-year Treasury widening roughly 6 basis points.

Equities

As earnings season began to pick up this week, equities continued to move sideways. Sixty-three companies of the S&P 500 have reported this week and the results have been generally positive. Approximately 74% of the companies that reported had earnings per share above expectations and 47% beat revenue expectations. Also, growth rates were in-line with expectations, with all companies expected to grow earnings 4.7% and revenues up 3.7% for the quarter. Reporting for companies in the healthcare, energy and consumer sectors have been light at this juncture and will be more active in the weeks ahead. Despite investor focus on corporate earnings, this week was relatively uneventful as investors await policy announcements from the new administration. Most sectors generally moved sideways for the week, except financials had some profit taking and healthcare stocks experienced a little weakness.

S&P 500



Our View

As the new Trump Administration grabs hold of the levers of power in Washington, financial markets wait for clarity regarding economic and regulatory policy to emerge. For over a month many financial pundits, us included, have tried to assess the potential global impact of the various proposals that have been suggested. We would expect the process of sweeping overhauls to the U.S. tax code and broad and invasive laws, such as the Affordable Care Act, to be messy. Given the toxic and contentious tone in Washington, we expect it will take awhile for Congress and the Administration to converge on workable legislation. Investors should expect heightened headline risk and potentially greater volatility in the months ahead. Trade policy is an area where we could see relatively quick action. New trade agreements require congressional approval, but modifying or undoing existing commitments does not. We still have few details on Mr. Trump's intentions regarding specific trade policy, but would expect him to renegotiate components of NAFTA (rules of origin) and undo the Trans-Pacific Partnership almost immediately.

COMING UP NEXT WEEK		**Est.**
01/24 Markit Mfg PMI Flash	(Jan)	54.4
01/24 Existing Home Sales	(Dec)	5.54mln
01/26 New Home Sales – Units	(Dec)	0.584mln
01/27 Durable Goods	(Dec)	2.6%
01/27 GDP Advance	Q4	2.2%
01/27 Core PCE Prices Advance	Q4	1.6%
01/27 U Mich Sentiment Final	(Jan)	98.1

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