The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

November 10, 2017

As of 11/10/2017		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	23,422.21	-116.98	-0.50	2.21	18.52	24.53
S&P 500	2,582.30	-5.54	-0.21	1.93	15.34	19.14
NASDAQ 100	6,309.07	13.48	0.21	1.05	29.72	32.91
S&P MidCap 400	1,825.75	-10.23	-0.56	1.55	9.95	17.97
Russell 2000	1,475.27	-19.64	-1.31	1.35	8.72	17.89

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.65	Euro/Dollar	1.17	0.45
5-Year	2.05	Dollar/Yen	113.53	-0.49
10-Year	2.40	Sterling/Dollar	1.32	0.86
30-Year	2.88	Dollar/Cad	1.27	-0.71

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

There is a good reason why many stocks in the S&P 500 Index have appreciated strongly this year. Stock prices are ultimately determined by companies' earnings (profits). According to Zacks Investment Research, almost 95% of the S&P 500 members have reported earnings for this quarter, with over 73% beating expectations which is modestly above the 12-quarter average of 71.3%. Total S&P 500 earnings have grown 6.8% from the same period last year, and revenues have grown 6.2%. The robust level of revenue growth has particularly surprised investors. Leading the way has been energy, information technology and materials companies. Robust growth in the energy sector (approximately 6% of the S&P 500 Index) has been the result of rising oil prices and easy comparisons from last year. The laggard this quarter has been the finance sector because of banks' challenging comparisons and the impact of the hurricanes on insurance company earnings. We are seeing a very healthy, multi-year progression in earnings estimate from last year's 0.7% profit growth to anticipated growth in full-year 2017, 2018 and 2019 of 7.2%, 11.5% and 9.8%, respectively.

Economy

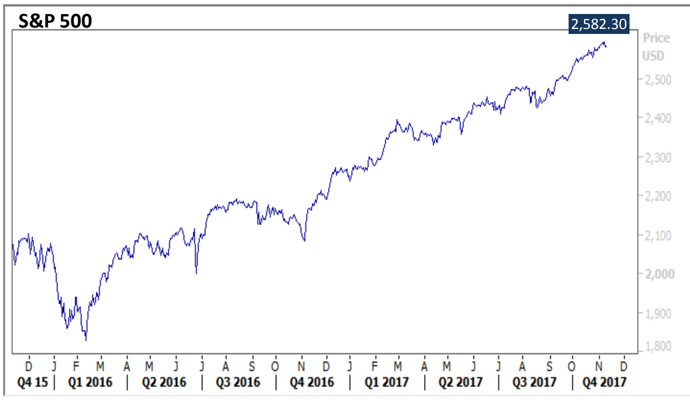
This week's economic calendar was relatively light. On Tuesday, the JOLTS (job openings and labor turnover survey) and consumer credit reports were released. The number of job openings in September was little changed from the prior month at 6.093 million which was slightly above the expected 6.053 million. Job openings have been at or near record high levels since June. The "quits" rate increased to 2.2%, and the net employment gain over the last 12 months totaled 1.8 million. The consumer credit report showed an unexpected surge to $20.8 billion in September after increasing by $13.1 billion in August. This came in well above expectations of $17.5 billion. Initial jobless claims for the week ending November 4th increased 10,000 to 239,000 which was above consensus estimates of 232,000. The four-week moving average is now at 231,250 which is at its lowest level in 44 years. Continuing claims also came in above expectations and were up 17,000 to 1.901 million. Finally, on Friday, U.S. consumer sentiment declined to 97.8 from 100.7 in the prior month. The unexpected drop was the largest in a year, but the sentiment index is still the second highest it has been since January. Anticipation of a pickup in inflation and higher interest rates weighed on the gauge.

Fixed Income/Credit Market

Thus far in November, high yield bonds have underperformed since credit spreads have been widening. More specifically, the spread between the 5-year BB rated Bloomberg corporate curve and the 5-year U.S. Treasury has increased approximately 12 basis points (bps) since November 1st. Over that same period, high yield option-adjusted spreads (OAS) have widened roughly 24 bps. These may be early warning signs that we have hit an inflection point in credit markets after touching multi-year lows as recently as two weeks ago. The global chase for yield drove high yield bond prices to record highs and now the risk-off trade appears to be on the horizon as investors are beginning to expect higher credit spreads for the added investment risks. President Trump's policy uncertainties, upcoming changes at the U.S. Fed, and geopolitical risks have made longer to moderate duration high quality bonds a better option for fixed income investors.

Equities

Equity prices fell this week, after setting records early on. Stocks finished lower as investors continued to weigh conflicting tax cut proposals in the U.S. House of Representatives and Senate. While both bills would reduce the corporate tax rate to 20% from 35%, the Senate legislation does not adjust the corporate rate until 2019. Following a trip to Asia this week by President Trump, Chinese officials announced further steps towards liberating their financial system. According to reports, foreign ownership limits on banks and asset management companies will be removed. After significant weakness in major financial firms, largely due to flattening of the yield curve, financial stocks stabilized on the Chinese news. Industrial and tech stocks also led stocks lower. Benchmark U.S. crude oil (West Texas Intermediate) rose this week to its highest level since the middle of 2015, which helped the majority of energy stocks. Oil has increased as the supply/demand balance has become more favorable for price increases with global economic expansion.



Our View

Domestic equity markets took a break from their recent upward trajectory as the details of U.S. tax reform started to emerge from both chambers of Congress. Moreover, key differences in the two proposed bills thus far are likely to make the passage of tax reform rather difficult in the near term. Credit markets reacted to the news in a risk-off fashion with the high yield option adjusted spread widening approximately 20 basis points on the week. A real-time indicator that we closely follow to gauge the degree of risk-off sentiment is the level of generic high yield credit default swap spreads (CDX HY). Currently, the CDX HY is approximately 329 basis points, which is up roughly 20 basis points since November 1st, but is still extremely low. The 5-year high of 600 basis points was reached in early 2016, when domestic large cap stocks were down roughly 10% to begin the year. Much of the rally in the equities in September and October was predicated on the prospect of tax reform; it is not surprising to see modest profit-taking on the uncertainty created from the legislative process.

COMING UP NEXT WEEK		Est.
11/14 PPI Final Demand MM	(Oct)	0.1%
11/15 Core CPI YY, NSA	(Oct)	1.7%
11/15 CPI MM, SA	(Oct)	0.1%
11/15 Retail Sales MM	(Oct)	0.1%
11/16 Industrial Production MM	(Oct)	0.5%
11/17 Housing Starts Number MM	(Oct)	1.180M

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