The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

March 31, 2017

As of 03/31/2017		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	20,663.22	66.50	0.32	2.36	4.56	16.84
S&P 500	2,362.72	18.74	0.80	1.97	5.53	14.71
NASDAQ 100	5,436.23	72.24	1.35	1.10	11.77	21.25
S&P MidCap 400	1,719.65	25.24	1.49	1.68	3.56	18.99
Russell 2000	1,385.92	31.28	2.31	1.44	2.12	24.41

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.26	Euro/Dollar	1.07	-1.34
5-Year	1.92	Dollar/Yen	111.36	0.00
10-Year	2.39	Sterling/Dollar	1.25	0.52
30-Year	3.01	Dollar/Cad	1.33	-0.58

Source: Thomson Reuters, Bloomberg

What Caught Our Eye This Week

This week President Trump signed an executive order that initiates a review of the Clean Power Plan (CPP) with the purpose of rolling it back. The goal of CPP was to reduce carbon pollution from power plants which scientists claim is driving climate change. While the direct beneficiaries are the coal miners, experts doubt that scrapping the CPP will have any positive effect on coal industry jobs which have steadily declined over the last several decades. In addition, coal has lost market share to natural gas and renewables due to falling prices and economies of scale. Many states have their own requirements to increase renewable power generation. Five states now get 20% of their electricity from wind power. In 2005, coal provided 60% of U.S. electricity. In 2015, U.S. electricity sources were: coal 33%, natural gas 33%, nuclear 20%, renewables 13% and petroleum 1%. Of the renewables, the most notable were hydro 46%, wind 35% and solar 3%. One would expect these to increase as technology improves and costs continue to come down. Lastly, utility companies continue to invest in renewable power generation and say that it is a long-term strategy which is unlikely to change.

Economy

The highlight this week was Tuesday's release of the Conference Board's consumer confidence index. This index increased 9.5 points to 125.6 in March, the strongest reading since December of 2000. The labor market differential (jobs plentiful versus hard to get) increased from 7.0 in February to 12.2 in March, which is its highest level going back to August of 2001. Some economists consider this a late cycle development with references to other peaks in confidence, highlighting July 2007 at 111.9 and February 1989 at 120.1. In other news this week, we were pleased to see fourth quarter GDP revised upward to 2.1% from 1.9%. This was the third look at fourth quarter GDP and the best news was "real" growth in consumption was increased from 3.0% to 3.5%. Corporate profits have now risen for two consecutive quarters, and for all of 2016 profits advanced by 4.3%. On Thursday, we were happy to see weekly jobless claims decline by 3,000 to 258,000 during the week ending March 25th. The four-week moving average is now at 254,250. Finally on Friday personal income showed an increase of 0.4%, while consumer spending increased by 0.1% in February. The core PCE (personal consumption expenditures) is now running hot up 2.5% on a three-month annualized basis.

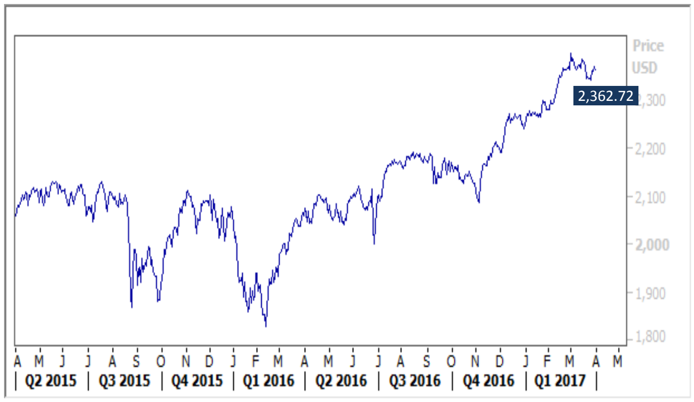
Fixed Income/Credit Market

Back in December, we reported that New Jersey's state pension system was the worst-funded public pension system in the U.S. with $137.5B of unfunded liabilities in 2015. This past week, New Jersey's credit rating was downgraded for the 11th time under Governor Chris Christie by the three major credit rating agencies. New Jersey is currently rated A3 with a stable outlook by Moody's Investors Service. Since December, 10-year municipal debt backed by the state of New Jersey has widened 17 basis points (bps) and is trading approximately 106 bps above the Bloomberg 10-year AAA municipal index. This has created a yield pickup opportunity in higher credit quality municipalities in New Jersey, particularly at the AA+ level. More specifically, a recent New Jersey AA+ general obligation (GO) municipal bond at the 8-year tenor traded 17 bps wider versus the U.S. AA+ GO municipal bond scale at 2.30%.

Equities

This week was the end of the first quarter and U.S. equities achieved the 6th consecutive positive quarter and the best since the fourth quarter of 2015. Most of the appreciation occurred in the first two months of the quarter, while equities went relatively sideways for the month of March. The loss of momentum could be attributed to concerns that Washington's failed efforts to replace the Affordable Care Act would delay pro-growth policies. Nevertheless, many economic indicators remain positive. The upcoming earnings season has earnings expectations up over 6% from the same period last year and maintaining a solid trend from the previous two quarters. The sector performance of the S&P 500 was generally positive for all of the sectors, except for energy and telecommunications. Although investors have generally focused on the strength of U.S. investments, foreign markets were good performers during the quarter, particularly the emerging markets. The MSCI emerging market index was up 11% for the quarter, the most since 2012.

S&P 500



Our View

Although returns were unevenly distributed, global equity markets generally had a robust first quarter. The fixed income markets offered modestly positive returns as well. Looking ahead to the second quarter, clearly political uncertainty has risen in both Europe and the United States since the beginning of the year. The political environment in Europe is clouded due to concern over election outcomes and the long, slow breakup of the European Union and the United Kingdom. Despite these concerns, latest investment flows out of domestic equities into European equities has been quite strong. The macro economic news has been steadily improving in Europe and the general perception is that European equities are undervalued compared to U.S. equities. European equities outperformed U.S. equity markets by slightly less than 300 basis points in March. With a more hawkish Federal Reserve and an uncertain handoff from monetary and fiscal policies domestically, we would expect more capital flows into European equities assuming the French election resolves itself favorably.

COMING UP NEXT WEEK		Est.
04/03 ISM Manufacturing PMI	(Mar)	57.0
04/04 Factory Orders MM	(Feb)	1.0%
04/05 ADP National Employment	(Mar)	200k
04/05 ISM Non-Manufacturing PMI	(Mar)	57.0
04/07 Non-Farm Payrolls	(Mar)	180k

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