The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

September 7, 2018

As of 09/07/2018		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	25,916.54	-48.28	-0.19	2.13	4.84	18.97
S&P 500	2,871.68	-29.84	-1.03	1.81	7.41	16.50
NASDAQ 100	7,430.26	-224.29	-2.93	0.98	16.16	24.58
S&P MidCap 400	2,027.25	-17.45	-0.85	1.51	6.67	18.31
Russell 2000	1,713.18	-27.57	-1.58	1.32	11.57	22.49

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	2.70	Euro/Dollar	1.16	-0.45
5-Year	2.82	Dollar/Yen	111.05	-0.01
10-Year	2.94	Sterling/Dollar	1.29	-0.32
30-Year	3.10	Dollar/Cad	1.32	0.84

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

The emerging markets consist of over 20 individual countries, each with its unique strengths and weaknesses. Nevertheless, the emerging market as a collective group has been struggling. From its peak in the third week of January, emerging market stocks have declined by almost 20%. The U.S. threatening to levy tariffs on China has sent shockwaves throughout Asia and countries that will be potentially impacted by a slowing China. This concern is in addition to the slowing economic growth which has occurred over the past two quarters in many of these nations. Budget deficits are commonplace, and for years countries have spent considerably on public works projects, funding these ventures with high levels of debt. In some cases the loans have been in U.S. dollars. Paying back debt denominated in U.S. dollars becomes a problem when a foreign country's currency declines in value relative to the U.S. dollar. In South Africa, Brazil, Turkey and Argentina, their currencies have declined between 18% - 49%, the worst being Argentina. In its efforts to curb the decline in the peso, the Argentine central bank has raised rates to an astonishing 60%. Myopic financial decisions on the part of any government are always met by a reaction from the financial markets.

Economy

Most of the economic reports this week support the view of a stable and strong U.S. economy. On Tuesday, the ISM Manufacturing index hit its highest level since 2004 increasing to 61.3 in August – well above the consensus expectation of 57.6. The new orders index rose to 65.1 from 60.2 in its prior reading and has now been above 60 for sixteen consecutive months. The durable goods report was released later in the week and showed a 1.7% decrease in overall orders in August. Core capital goods orders and core capital goods shipments increased by 1.6% and 1.0%, respectively. Finally, on Friday, the nonfarm payroll report showed an increase in payrolls of 201,000 in August which beat consensus estimates of 190,000 and was well above the prior month's downwardly revised 147,000. The unemployment rate held steady at 3.9% and the U-6 measure of unemployment ticked down to 7.4%. Possibly the most noteworthy data point in the report was average hourly earnings which increased by 2.9% on an annual basis, the largest increase since June 2009.

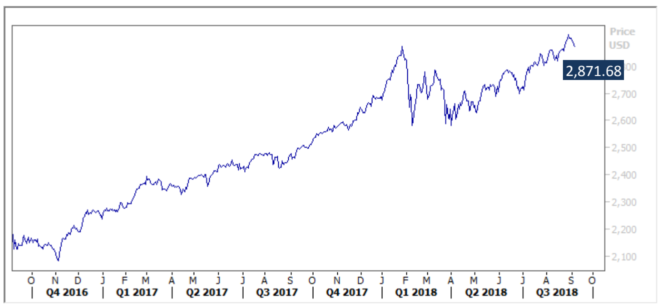
Fixed Income/Credit Market

Fixed income performance for the month of August was mostly positive in the traditional fixed income sectors that we follow. With the long end of the U.S. Treasury curve compressing approximately 6 to 10 basis points (bps) and the domestic risk-on trade in full swing, it was no surprise that the top performing sector consisted of preferred equities with a month-to-date total return of 1.41%. Other strong performing sectors included high quality intermediate duration bonds and TIPS with monthly returns of 0.76% and 0.65%, respectively. The poorest performing sector was emerging market debt, which returned negative 2.32%. Other fixed income laggards included international Treasuries both currency-hedged and unhedged which returned negative 0.63% and positive 0.05%, respectively. Moving into September, all eyes will be focused on the 26th when the FOMC releases a statement. Effective Fed Funds Futures are projecting with 96.3% certainty that the FOMC will raise rates an additional 25 bps.

Equities

The Labor Day shortened four-day trading week ended with the equity market under pressure. Value stocks outperformed growth stocks by 1.32%. Information Technology was the weakest sector declining 2.6%. Major social media stocks sold off as company executives met with congress to discuss efforts to protect U.S. elections from foreign influence. The U.S. trade deficit widened by 9.5% in July to $50.1B which will negatively impact third quarter U.S. GDP. The equity market was mixed on Friday after more positive economic data was released showing hourly wages rose by 2.9% year-over-year. Wage growth surpassed expectations and may be a catalyst for the Fed to increase rates more rapidly. This economic release is an inflationary concern for investors. Finally, the Trump administration announced potential tariffs on Chinese goods and the deadline for a NAFTA deal with Canada was not met. This week's best performing sector was utilities, gaining 1.2%.

S&P 500



Our View

Housing is an important sector of the economy. Prices in many local real estate markets have recovered from the Great Recession lows. Housing activity, however, has not approached the highs of early 2006. In January of 2006, U.S. housing starts reached an annualized run rate of over 2 million units, yet since April of 2015, the U.S. economy has been creating new housing at roughly a 1.2-million-unit rate. The housing sector has softened this year as affordability has become increasingly stretched largely due to higher mortgage rates. Housing analysts have attributed some of this weakening to a lack of supply, but there are other elements at play. The marginal buyer drives market activity and sets the price that clears markets. This is true for financial assets and real assets such as housing. The marginal entry-level buyer creates a market that leads to a chain of other real estate sales and housing construction. Despite a strong job market, statistics indicate the millennial buyer is delaying purchasing homes compared to prior generations. Student debt is the likely reason. A recent Federal Reserve study indicated that student debt hit $1.52 trillion this year up a staggering 9.5% annualized rate for the last decade. More than 44 million people are burdened by student debt, and the average American student owes $37,000. The College Board estimates that the annual all-in cost of a private non-profit college is $70,000. Student debt is having a deleterious impact on housing, household formation, and other significant economic decisions. Education costs have become a problem with broad economic implications that needs to be solved.

COMING UP NEXT WEEK		**Est.**
09/12 PPI Final Demand MM	(Aug)	0.2%
09/13 CPI MM, SA	(Aug)	0.2%
09/14 Retail Sales MM	(Aug)	0.5%
09/14 Retail Control	(Aug)	0.5%
09/14 U Mich Sentiment Prelim	(Sep)	96.3

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