The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

March 17, 2017

As of 03/17/2017		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	20,914.62	11.64	0.06	2.33	5.83	19.64
S&P 500	2,378.25	5.65	0.24	1.95	6.35	16.68
NASDAQ 100	5,408.76	22.86	0.42	1.11	11.21	22.92
S&P MidCap 400	1,731.14	20.24	1.18	1.66	4.40	21.96
Russell 2000	1,391.52	26.26	1.92	1.43	2.65	27.66

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.32	Euro/Dollar	1.07	0.58
5-Year	2.02	Dollar/Yen	112.66	-1.83
10-Year	2.50	Sterling/Dollar	1.24	1.75
30-Year	3.11	Dollar/Cad	1.33	-0.96

Source: Thomson Reuters, Bloomberg

What Caught Our Eye This Week

The President's annual wish list known as the "skinny budget" was released this week and reflects his government spending priorities. The proposal would increase defense, veteran's care and law enforcement spending and reduce many areas of domestic spending as well as cuts to foreign aid. Specifically, the White House released a request for an additional $30 billion in funding for the military for 2017 and $54 billion in new military spending for the 2018 fiscal year which starts October 1. To offset the spending, it is estimated that about 19 agencies and 61 programs will be impacted or eliminated. One that is likely to face strong pushback is the proposed $3 billion cut to the 43-year old Community Development Block Grant program. Administered by the Department of Housing and Urban Development, the program helps state and local governments fund a wide range of projects from housing to public services. The loss of these grants at a time when many states are struggling to balance their budgets will further widen the gap. Republican leadership is quick to say that this is only the beginning of the budget process. Ultimately, Congress will write its own funding bills for the government. Let the battle begin.

Economy

This week offered an abundance of economic news with the best reports coming on Thursday. Housing starts figures increased by 3% to 1.288 million in February beating consensus estimates. The best news from this report was single family permits increasing by 3.1%, and single family starts increasing by 6.5% reaching a cycle high. Single family data contributes about twice as much to GDP as does multifamily. Also on Thursday the JOLTS report (job openings and labor turnover survey) displayed 5.6 million job openings in January. The "quits" rate edged up to 2.2%, and over the last 12 months the net employment gain is +2.4 million. On Wednesday, retail sales figures showed a 0.1% gain in February and are now up 5.7% year-over-year. The all important control category, which excludes food service, autos, gas and building materials also advanced by 0.1%. Once again, the internet-heavy nonstore category posted an impressive gain of 1.2%. The consumer price index data was also reported on Wednesday and showed a 0.12% increase in February. The CPI is now up 2.7% year-over-year, which is a five-year high. The "core" CPI is now up 2.2% over the past 12 months. Finally on Friday industrial production was unchanged in February, but manufacturing output increased by 0.5%. Manufacturing output has now increased for six straight months, and Q1 output is approaching 3.5%.

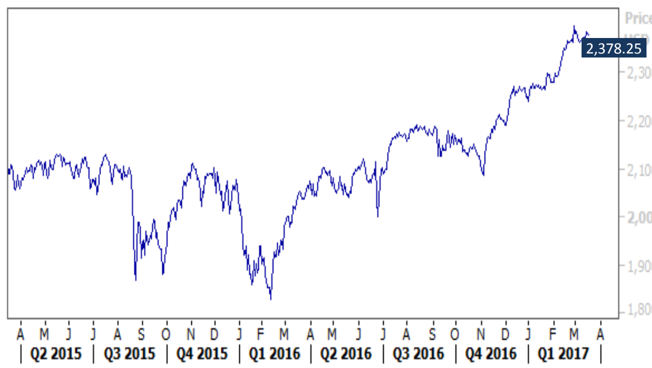
Fixed Income/Credit Market

On Wednesday, the Federal Open Market Committee voted to raise the Fed Funds rate 25 basis points (bps), effectively increasing overnight borrowing to 91 bps. Additionally, the FOMC lifted the discount rate by 25 bps to 1.50%. The tone of the announcement was slightly more dovish than the market expected and the bond market quickly rallied. UST yields closed across the curve Wednesday 6.8 to 12.5 bps lower. The biggest drop came at the 5-year tenor which decreased 12.5 bps to approximately 2.00%. The 2-year and 10-year tenors decreased 7.7 and 10.7 bps, closing at 1.30% and 2.49%, respectively. The market has slightly rebounded since Wednesday's close and rates have increased anywhere from half a basis point to 2.1 bps. The 2-year, 5-year, and 10-year tenors closed the week at approximately 1.32%, 2.02%, and 2.50%, respectively.

Equities

Equity markets were relatively quiet this week. Early in the week markets were focused on the mid-week outcome of the FOMC rate announcement. Although the .25% rate hike was as expected, Fed Chairwoman Janet Yellen maintained a dovish tone. Markets immediately responded with relief, and interest rate sensitive stocks such as utilities and staples moved higher. The dovish tone spread over to currency markets, with the dollar experiencing notable weakness versus other major currencies. The weaker dollar provided lift to international equities, leading to strong rallies in both developed and emerging markets. Oversupply of oil kept crude prices below $50 for the week and a lid on energy stocks. Several pharmaceutical and bio-technology stocks were negatively impacted by the White House federal budget proposal, indicating reduced federal funding for the National Institute of Health. Strength in software and internet stocks drove the NASDAQ towards all-time highs for the week.

S&P 500



Our View

Monetary policy was in the headlines this week with the FOMC announcing a 25 basis point (bp) rate increase in the Fed funds rate on Wednesday afternoon. Markets had accurately priced in the 25 bp increase, but were surprised by the lack of a hawkish tone. The FOMC reiterated their guidance of two more 25 bp rate hikes in 2017 even though headline inflation has moved close to the Fed's target. The Fed pays considerable attention to core Personal Consumption Expenditures (PCE) and according to their numbers, core PCE was little changed since they last met and is still running slightly below their two percent target. The FOMC predicts that GDP will grow by 2.1% in 2017 and if global economic conditions continue to strengthen, volatility remains low and core inflation does not increase much, we believe the Fed funds rate should end the year up an additional 50 bps.

The rise in populism took a pause with the Dutch voters not showing much support for Geert Wilders and the Freedom Party. With the Netherlands being one of the EU's six founding members, the election showed the EU still has unity at its core. That unity will be tested in April and May when France goes to the polls and again in September with the German elections. However, we feel that the French and German voters will follow the Netherland's lead and populism should remain contained in both countries.

COMING UP NEXT WEEK		**Est.**
03/22 Existing Home Sales	(Feb)	5.57mln
03/23 New Home Sales – Units	(Feb)	0.568mln
03/24 Durable Goods	(Feb)	1.2%
03/24 Markit Mfg PMI Flash	(Mar)	54.8

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