The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

June 30, 2017

| As of 06/30/2017 | | Wk | Wk | | YTD | 12 Mos |
|---|---|---|---|---|---|---|
| | | Net | % | Div | % | % |
| **STOCKS** | Close | Change | Change | Yield | Change | Change |
| DJIA | 21,349.63 | -45.13 | -0.21 | 2.33 | 8.03 | 19.07 |
| S&P 500 | 2,423.41 | -14.89 | -0.61 | 1.96 | 8.27 | 15.49 |
| NASDAQ 100 | 5,646.92 | -156.19 | -2.69 | 1.14 | 16.11 | 27.82 |
| S&P MidCap 400 | 1,746.65 | 2.70 | 0.15 | 1.71 | 5.18 | 16.72 |
| Russell 2000 | 1,415.36 | 0.58 | 0.04 | 1.42 | 4.38 | 22.97 |

| **TREASURIES** | Yield | **FOREX** | Price | Wk %Change |
|---|---|---|---|---|
| 2-Year | 1.38 | Euro/Dollar | 1.14 | 2.01 |
| 5-Year | 1.89 | Dollar/Yen | 112.45 | 1.02 |
| 10-Year | 2.30 | Sterling/Dollar | 1.30 | 2.40 |
| 30-Year | 2.83 | Dollar/Cad | 1.30 | -2.28 |

Source: Thomson Reuters & Bloomberg

### What Caught Our Eye This Week

North Korea is arguably the world's biggest foreign policy dilemma. It is the world's most isolated and recalcitrant country, and it is led by a fanatical head of state who is bent on extending its nuclear reach in Asia and into the Western Hemisphere. The United States has been pressuring China (which handles about 90% of North Korea's trade) to use its influence to change the course of events. North Korea has conducted five nuclear tests over the past 11 years, and it has launched 16 missiles in 10 tests over the past six months. In February, China stopped buying coal from its neighbor. Coal is one of North Korea's largest sources of revenue ($1.9 billion). Because of this drop in income, it is believed that the country does not have the cash to purchase gasoline and diesel fuel from China which is its chief supplier. China National Petroleum Corp stopped shipping fuel to North Korea "over the past month or two" because it has not been getting paid. Since April, the price of gasoline in North Korea has risen by almost 50%, while the price of diesel has more than doubled. As with everything in North Korea, the details are murky, but China just may be the country that can successfully bring North Korea to the bargaining table.

### Economy

This week's economic releases were mostly positive with the exception of Monday's durable goods report. In May, new orders for durable goods declined 1.1% which came in below the consensus expectation of -0.6%. "Core" capital goods orders and capital goods shipments (ex-aircraft and defense) were also disappointing. Both measurements were expected to increase by 0.4% but instead declined by 0.2%. On Tuesday, we saw an unexpected rebound in U.S. consumer confidence. The Conference Board's Consumer Confidence Index rose to 118.9 from 117.6 in May, beating estimates of 116.0. The Present Situation Index, a measurement of overall consumer sentiment toward the current economic situation, increased to 146.3 which is its highest measurement since July 2001. Furthermore, first quarter GDP was revised up to a 1.4% annual rate versus a prior estimate of 1.2% and an original estimate of 0.7%. The upward revision reflected stronger exports and consumer spending on services. Overall, the largest positive contributions to the real GDP growth rate in the first quarter came from business investment, consumer spending and home building. Finally, on Friday, personal income showed an increase of 0.4% while consumer spending increased by 0.1% in May. Incomes are posting the strongest start to a year since 2014, increasing 3.5% over the past 12 months.

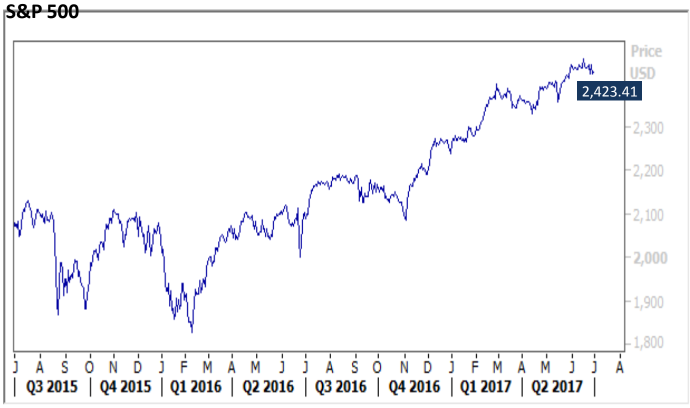
### Fixed Income/Credit Market

U.S. Treasury yields sold off week-over-week, led by the 7-year and 10-year tenors both increasing roughly 16 basis points (bps) to close the week at 2.14% and 2.30%, respectively. The 30-year Treasury increased 12 bps to 2.84%. On Friday, Core PCE was reported at 1.4% year-over-year. Market participants were expecting a weaker inflation report so the U.S. Treasury sell-off extended. On the week, credit spreads on investment grade bonds compressed further with the 5-year AA, A and BBB – rated composites down 2.3, 1.8 and 2.3 bps, respectively. In the high yield sector, the 5-year BB and B – rated composites are down 2.8 and 6.1 bps, respectively. The high yield option-adjusted spread stands at 3.85% according to Bloomberg, over a one-year horizon the spread is tighter by approximately 235 bps since its peak of 6.19% on 6/30/16.

### Equities

Despite modest gains on Friday, the last trading day of the second quarter, major equity indices recorded losses for the week. The equity market continues to consolidate recent gains. The technology sector, which sold off roughly 2.5%, was especially weak. Technology shares have been declining as investors are concerned about valuations and the impact of rising interest rates which can negatively impact higher multiple stocks. Banks were strong as the Federal Reserve cleared the way for the companies to return capital to shareholders. The second round of the stress tests significantly reduced doubts regarding the health of the banking sector, and many banks increased dividends and share buybacks. For the first time since the annual stress test was launched after the financial crisis, the Fed did not object to any of the share buybacks or dividend increases of the 34 banks it reviewed. Also lifting bank stocks was an increase in interest rates. Conversely, higher rates caused the utility sector to be one of the worst performers.

**S&P 500**




### Our View

Equity and fixed income investors were both treated to favorable markets in the first half of 2017. Positive earnings surprises in the first quarter and accommodative global central banks have been the key drivers of solid returns this year. Financial markets have been accustomed to central banks providing liquidity whenever economic conditions soften or risk concerns creep into investor's psychology. The second half of the year is likely to be more difficult as central banks are becoming less of a supportive factor. Recent rhetoric from the Bank of England, Bank of Canada, and even the ECB is suggesting a shifting attitude toward tightening. Perhaps, the central banks are finally getting concerned with potential asset inflation as reflationary forces take hold. Regardless of the reason, it is likely to be an additional challenge for both the bond and equity markets.

| COMING UP NEXT WEEK | | Est. |
|---|---|---|
| 07/03 ISM Manufacturing PMI | (Jun) | 55.0 |
| 07/03 Total Vehicle Sales | (Jun) | 16.80M |
| 07/05 Factory Orders MM | (May) | -0.10% |
| 07/06 ISM N-Mfg PMI | (Jun) | 56.6 |
| 07/07 Non-Farm Payrolls | (Jun) | 183k |
| 07/07 Unemployment Rate | (Jun) | 4.3% |
| 07/07 Average Earnings MM | (Jun) | 0.3% |

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