The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

December 15, 2017

As of 12/15/2017		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	24,651.74	97.57	0.40	2.12	24.74	24.18
S&P 500	2,675.81	928.00	0.34	1.89	18.32	17.93
NASDAQ 100	6,466.32	6.70	0.11	1.05	32.95	31.07
S&P MidCap 400	1,886.67	-3.72	-0.20	1.53	13.91	11.52
Russell 2000	1,530.42	-15.30	-1.00	1.35	12.17	9.81

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.84	Euro/Dollar	1.19	-1.03
5-Year	2.16	Dollar/Yen	112.57	1.17
10-Year	2.35	Sterling/Dollar	1.33	-0.65
30-Year	2.69	Dollar/Cad	1.29	1.28

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

The stock market has already begun to price in the tax overhaul legislation now making its way through Congress. Companies that will benefit the most from the changes will be determined based on a plethora of considerations. Companies with the highest tax rates and those companies that do most of their business in the United States (as opposed to lower-taxed jurisdictions abroad) may have the most to gain from the rate cuts. Many consumer discretionary, consumer staple, financial and healthcare companies fall into this category. Companies that have lower profitability or that have large net operating losses that can be used to offset income in the future will not benefit as much from lower tax rates. Some energy companies fall into this category. Additionally, the proposed full deduction of capital expenditures will help companies burdened with high fixed costs – such as telecommunication firms. With the new plan, companies that maintain sizeable cash balances abroad will have a greater incentive to repatriate the cash; however, they will only bring cash back to the United States if it cannot be invested in other opportunities overseas. Cash repatriated will most likely be used to buy back stock, pay for dividends or for mergers and acquisitions.

Economy

The most anticipated report this week was the retail sales report, which was released on Thursday. Retail sales increased 0.8% in November and are now up 5.8% year-over-year. The all important control group category, which excludes food service, autos, gas and building materials, advanced by 0.8%. Also there were positive revisions made to the control group figures for September and October. Nonstore retailers were strong once again rising by 2.5% during the month, and this gain is the largest monthly increase in over a year. In total, 12/13 retail sales categories showed growth in November. In other news this week, the consumer price index displayed an increase of 0.4% in November and is now up 2.2% year-over-year. The core CPI (excludes food and energy) increased by .11% and is now up 1.7% year-over-year. Earlier in the week, the JOLTS report (job openings and labor turnover survey) showed six million job openings in October. The “quits” rate was unchanged at 2.2%, and the net employment gain over the past 12 months is 2.1 million. On Friday, industrial production figures showed a gain of 0.2% in November, which was below expectations. Manufacturing production rose 0.2%, while capacity utilization ticked up to 77.1% overall and 76.4% in manufacturing.

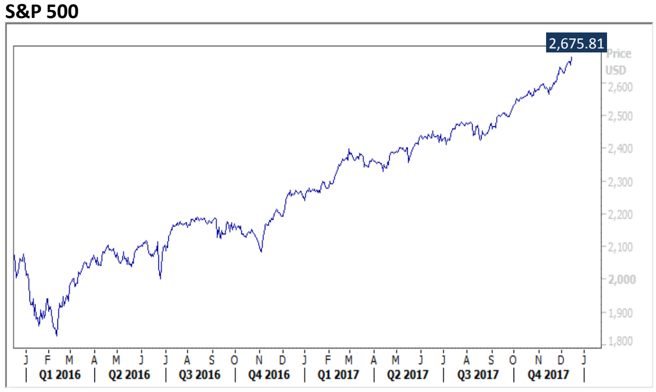
Fixed Income/Credit Market

On Wednesday, the FOMC increased the fed funds rate for the third time this year an additional 25 basis points (bps) to a target range between 1.25% and 1.50% despite core inflation residing below the Committee’s 2.0% target. Similar to previous rate hikes, markets had largely priced in the interest rate increase prior to the official announcement and volatility was muted. According to Bloomberg, the implied probability of another rate increase in January is only 0.8%, however it jumps to 76.0% in March. The Fed funds futures are indicating that in December of 2018 the front end of the yield curve will be 1.85%, which implies two additional 25 bps hikes next year. FOMC participants are more optimistic than the market and forecast that they will be able to raise rates by 75 bps in 2018. The FOMC also revised its 2018 GDP growth projection up 40 bps to 2.5%. It is also worth noting that the maximum pace of the Fed’s balance sheet reduction will double in January from $10 billion to $20 billion per month.

Equities

U.S. stock market indices reached new record highs this week driven by the tax bill’s progress and positive economic data that should support earning’s momentum. This week’s leading sectors were information technology and health care increasing 1.51% and 0.83%, respectively. Despite a mid-week selloff in the technology sector, constituents of the sector rallied on Friday increasing 1.14% for the day. The health care sector mirrored the technology sectors market moves selling off on Thursday and recovering on Friday increasing 1.10% for the day. Thursday’s strong retail sales number helped drive the consumer stocks for the week closing 0.75% and 0.43% higher, respectively. This week’s lagging sectors were utilities and energy declining 1.54% and 0.81%, respectively. Utilities declined as investors favored growth this week which was reflected in the top two leading sectors. The energy sector also declined as crude oil continued to trade around $57 per barrel and the supply is anticipate to remain at a surplus for the first half of 2018 which will result in lower oil prices.

S&P 500



Our View

There were several noteworthy and potentially market-moving events this week. Both the Federal Reserve and the European Central Bank had rate meetings, and Congressional Republicans continued to wrestle with reconciling the House and Senate versions of tax reform. Relative importance is a matter of perspective. Bond investors were more interested in the Federal Reserve’s forward rate view and their economic forecasts. The Federal Reserve, as expected, raised their target on Fed Funds by 25 basis points and maintained their guidance of three more rate increases in 2018. The Fed has done such a good job telegraphing their intentions that there was little market reaction. Equity investors remain focused on the news regarding tax reform. Investor sentiment lifts as the confidence of passage of tax reform grows. The House-Senate conference committee working on the tax bill is working on modifications that will bring the remaining Republican holdouts on board. Major sticking points have been the size of the child tax credit (Marco Rubio and Mike Lee) and the elimination of the tax deduction for healthcare spending. Passage of the bill can be scuttled by just one or two holdouts. We expect Congressional Republicans to be able to navigate the remaining issues. The equity market has priced in much of the successful passage of tax reform.

COMING UP NEXT WEEK		Est.
12/19 Housing Starts Number MM	(Nov)	1.250M
12/21 GDP Final	(Q3)	3.3%
12/21 Core PCE Prices Final	(Q3)	1.4%
12/22 Personal Income MM	(Nov)	0.4%
12/22 Durable Goods	(Nov)	2.0%
12/22 U Mich Sentiment Final	(Dec)	97.2

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