The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

July 6, 2018

As of 07/06/2018		Wk Net	Wk %	Div	YTD %	12 Mos %
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	24,456.48	185.07	0.76	2.23	-1.06	14.71
S&P 500	2,759.82	41.45	1.52	1.87	3.23	14.53
NASDAQ 100	7,207.33	166.53	2.37	0.95	12.68	28.75
S&P MidCap 400	1,989.49	37.82	1.94	1.52	4.68	14.95
Russell 2000	1,694.05	50.98	3.10	1.32	10.33	20.93

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	2.54	Euro/Dollar	1.17	0.51
5-Year	2.72	Dollar/Yen	110.40	-0.27
10-Year	2.82	Sterling/Dollar	1.33	0.54
30-Year	2.93	Dollar/Cad	1.31	-0.26

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

In the past, we have written about China's surveillance state with an emphasis on how it is leading the world in facial recognition technology. As part of its monitoring apparatus, China has a web of 170 million cameras installed today, and the country plans to place another 450 million cameras over the next two years. The government is using artificial intelligence software to identify, monitor and document its citizens' movement throughout the country. According to the *Wall Street Journal*, electronic monitoring is now even more ubiquitous given China's nationwide rollout of its car-monitoring program this week. As of July 1st, during registration, the government is asking every car owner to install a radio-frequency identification chip on their vehicle which will transmit identifying information to sensors installed on the side of roads throughout the country. This information is now being sent to the Ministry of Public Security as a "means to improve public security and to help ease worsening traffic congestion." This program is currently voluntary, but it will become mandatory in January for all cars at registration. Even though electronic monitoring continues to increase in the United States, surveillance of this nature is generally considered anathema to many Americans who place a higher value on freedom and privacy.

Economy

The most anticipated report this week was the nonfarm payroll report, which was released on Friday. This report showed payrolls increasing by 213,00 in June, which was above the consensus forecast of 195,000. The unemployment rate increased to 4.0% and the U-6 measure of unemployment increased to 7.8%. Average hourly earnings increased by 0.2% and are now up 2.7% year-over-year. The labor force participation rate increased from 62.7% to 62.9%. Examining the different employment sectors, manufacturing added 36,000 jobs and construction added 13,000. In other news this week, the ISM manufacturing index increased to 60.2 in June, easily surpassing the consensus forecast of 58.5. The new orders index declined to 63.5 and has now been at 60 or higher for 14 consecutive months. On Thursday, the ISM non-manufacturing index increased to 59.1 in June, which was better than expected. The business activity index increased to 63.9, and the new orders index advanced to 63.2.

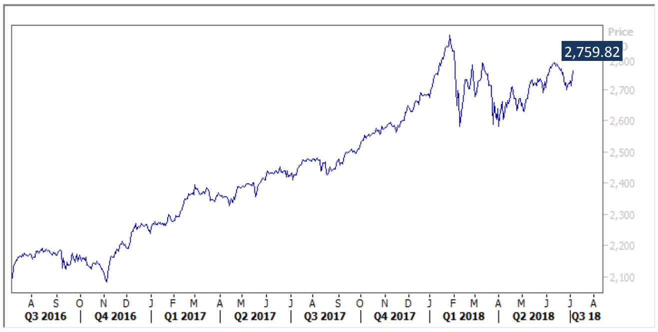
Fixed Income/Credit Market

Fixed income performances were mixed across all the sectors that we follow during the second quarter. The top performing sectors were preferred equities and short to intermediate-term high yield bonds which had total returns of 1.87% and 1.01%, respectively. The worst performing sectors were international treasury bonds (non-currency hedged) and emerging market bonds (non-currency hedged) returning -5.74% and -4.29%, respectively. On the quarter, interest rates across the U.S. Treasury curve increased as much as 26.2 basis points (bps) at the 2-year tenor, while the benchmark 10-year Treasury increased 12.1 bps. Additionally, the U.S. Dollar strengthened 4.96% during the quarter according to the Bloomberg Dollar Spot Index. The strength of the dollar coupled with U.S. monetary policy outpacing most countries explains the negative performance of non-currency hedged international treasury and emerging market bonds.

Equities

The equity market kicked off the second half of 2018 by advancing 1.5% for the week as global trade war fears were more than offset by strong economic data. Friday's strong nonfarm payroll report as well as strong manufacturing and service numbers indicate a boost to Q2'18 GDP. The FOMC's June meeting minutes released on Thursday also confirmed the strength of our economy. These positive releases led to a strong rally on Friday, but trade concerns remain a focus as we start the second half of 2018. The three major U.S. indices, S&P 500, DJIA, and the NASDAQ, closed in positive territory with the tech heavy NASDAQ appreciating the most, posting a 2.4% gain for the week. Ten of the eleven sectors closed higher week-over-week with telecommunication, healthcare, utilities, and information technology advancing more than 2%. The only sector to post a negative return for the week was energy as oil prices fell due to escalating trade war tensions and an increase in Saudi Arabia's oil output. Earnings season officially starts with JPM, WFC and C on July 13th.

S&P 500



Our View

The trade war became real on Friday as the United States instituted a 25% tariff on $34 billion worth of Chinese goods, and China responded with tariffs on imports from the U.S. on cars, soybeans, and lobsters. Given the size of the economies involved, the impact of these trade actions will be negligible, but the threat of escalation is meaningful and could have a more demonstrable effect on global growth. Despite the potential modest drag on economic growth, tariffs could also create some inflationary pressures by providing a pricing umbrella to domestic producers and through supply chain disruption. A trade war would significantly complicate the decision-making process for the Federal Reserve. The Fed is on course for possibly two additional rate increases this year which seems justified by the June employment report. Friday's jobs report was very robust and a clear indication that labor conditions continue to tighten. Wage pressure could be an issue in the second half of the year. According to the Department of Labor, there are 6.7 million job openings and there are more jobs available than there are unemployed workers. Companies across many industries are already complaining that it is difficult to find qualified workers, and at the current pace of job creation, this problem is likely to intensify. It is hard to imagine that we will not see additional wage pressure. The current dynamic will be beneficial for consumers as wages rise, but are likely to contract corporate margins.

COMING UP NEXT WEEK		Est.
07/11 PPI Final Demand YY	(Jun)	3.2%
07/12 Core CPI YY, NSA	(Jun)	2.3%
07/12 CPI MM, SA	(Jun)	0.2%
07/12 CPI YY, NSA	(Jun)	2.9%
07/13 U Mich Sentiment Prelim	(Jul)	98.2

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