The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

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As of 05/11/2018		Wk Net	Wk %	Div	YTD %	12 Mos %
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	24,831.17	568.66	2.34	2.16	0.45	18.70
S&P 500	2,727.72	64.30	2.41	1.89	2.00	13.90
NASDAQ 100	6,952.56	183.45	2.71	0.96	8.69	22.53
S&P MidCap 400	1,939.09	41.64	2.19	1.54	2.03	12.25
Russell 2000	1,606.79	41.19	2.63	1.27	4.64	15.58

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	2.53	Euro/Dollar	1.19	-0.18
5-Year	2.84	Dollar/Yen	109.30	0.15
10-Year	2.97	Sterling/Dollar	1.35	0.05
30-Year	3.10	Dollar/Cad	1.28	-0.46

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

On Tuesday, President Trump announced that the U.S. would withdraw from the 2015 "Iran Deal" and reimpose economic sanctions on Iran as well as any company or country that continues to do business with this denounced nation. Under the 2015 agreement, Iran agreed to cease its effort to develop a nuclear capability, but it retained the right to continue its development of ballistic missile technology and the right to restart parts of the nuclear program between 2026-2031. The sanctions and subsequent deal was the culmination of a coordinated effort on the part of six of the world's greatest powers. Generally analysts believe Iran is in technical compliance, but since 2015 it has greatly expanded its military support of resistance movements in Syria, Lebanon and Yemen leading to great acrimony in the international community. President Trump wants to back out of the accord and renegotiate the agreement unilaterally. Achieving success will be a great challenge because of the disunity among the nations involved. The outcome matters because of its considerable impact on power dynamics in the Middle East and its impact on oil, interest rates and U.S. corporations. Since the announcement, Brent crude oil has risen in price by nearly 6% and many financial stocks have increased by over 4% due to the expectation that Trump's actions may cause a decline in oil supply, increase in inflation and rise in interest rates.

Economy

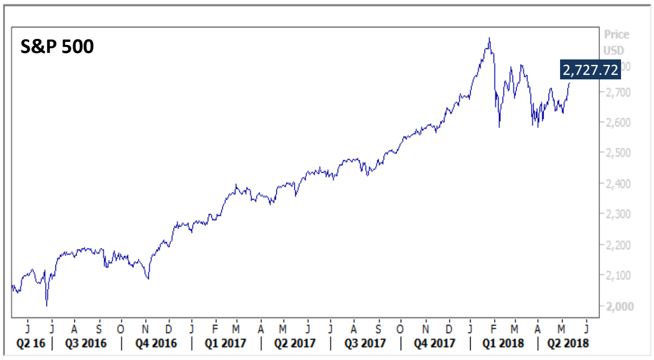
This week the economic data was centered around inflation statistics with the release of the producer price index and the consumer price index. On Wednesday the PPI figures came in below expectations with an increase of 0.1% in April. Over the past 12 months, this metric has increased by 2.6%. The "core" PPI which excludes food and energy prices advanced by 0.2% and is now up 2.3% year-over-year. The biggest influence on the headline figure was food prices, which decreased by 1.1%. The consumer price index was reported on Thursday and displayed an increase of 0.2% in April, which was below consensus expectations. Over the past year, this index has increased by 2.5%. The "core" CPI advanced by 0.1% and is now up 2.1% year-over-year. Energy prices and food prices had outsized moves with increases of 1.4% and 0.3%, respectively. Finally on Tuesday the JOLTS report (job openings and labor turnover survey) displayed 6.55 million job openings in March. The jobs openings rate came in at 4.2%, and the quits rate edged up to 2.3%. The JOLTS report also showed a net employment gain over the past 12 months of 2.3 million.

Fixed Income/Credit Market

Over the last several weeks, the drastic increase of corporate debt since the height of the financial crisis has been making headlines. According to Bloomberg, the amount of outstanding investment grade bonds has more than doubled since 2008 from \$2.02T to \$5.19T, a 157% increase. To put that into context, consumer debt, which played the biggest role in the financial crisis has only grown 3.8% over that same period according to the New York Federal Reserve. As the Fed continues raising the Fed funds rate and interest rates across the U.S. Treasury curve increase, the cost of servicing debt is going to become a much bigger burden for corporations. This can ultimately put pressure on corporate cash flows and contribute to credit spread widening. However, investors are not sounding the alarm bells yet as corporate earnings are growing nicely. Moreover, the spread between the 5-year A-rated Bloomberg composite curve and the 5-year U.S. Treasury is currently 63 basis points (bps), 5 bps below the 5-year average.

Equities

With corporate earnings' reporting passed its peak, equity investors focused on economic releases and President Trump's decision to pull out of the Iranian nuclear deal. Despite several earlier indicators showing inflationary concerns, inflation numbers for the week were benign and provided relief to the markets. The midweek announcement of the Iranian nuclear deal pushed oil prices higher, with WTI crude oil moving past \$71 a barrel and a three and-half-year high. The surge in oil prices caused energy stocks to rally approximately 4% higher for the week and energy was the leading market sector. The rise in oil prices could add to future inflation, and in turn prompt more Fed rate hikes. Accordingly, financial stocks were strong performers for the week. The utilities were the only negative sector during the week as higher interest rates adversely impact income equities. Overall, the U.S. equity markets rose to the best levels in several weeks. International markets returned to positive territory as the U.S. dollar reversed its strengthening trend.



Our View

Global equity markets finished higher on the week despite concerning geopolitical headlines. Two key inflation reports released in the U.S. came in slightly below expectations and gave market participants comfort that the Fed was not behind in tightening monetary policy. The long end of the U.S. Treasury yield curve, which increased to start the week, pulled back when the annualized headline Producer Price Index (PPI) decreased 40 basis points on a monthly basis and was below economist expectations. The decline in the headline PPI was surprising given the recent increase in energy prices along with bottlenecks in the transportation sector, however, the headline number was more heavily influenced by declines elsewhere. The recent pause in the rise of inflation data may be short lived as the current unemployment rate of 3.9% is well below the Fed's longer unemployment expectation of approximately 4.5% and should lead to wage pressures as time progresses. But, given the deflationary impact of technological innovation along with a portable and global labor pool, we do not expect wage pressures to escalate dramatically and therefore the removal of monetary policy accommodation should continue on a gradual path. Globally, the only other major developed market central bank to increase rates in the recent past was the Bank of England, but after a weak first quarter, policy makers voted 7-2 this week to keep rates unchanged and will most likely hold rates at current levels until economic momentum regains traction. It is interesting to note that with the financial crisis over nine years behind us, central bankers outside of the U.S. are still having a very difficult time normalizing interest rates.

COMING UP NEXT WEEK		Est.
05/15 Retail Sales MM	(Apr)	0.4%
05/16 Housing Starts Number	(Apr)	1.325M
05/16 Industrial Production MM	(Apr)	0.5%
05/16 Capacity Utilization MM	(Apr)	78.2%

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