The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

July 28, 2017

As of 07/28/2017		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	21,830.31	250.24	1.16	2.28	10.46	18.28
S&P 500	2,472.10	-0.44	-0.02	1.97	10.42	13.92
NASDAQ 100	5,908.92	-12.61	-0.21	1.10	21.49	25.15
S&P MidCap 400	1,762.34	-11.58	-0.65	1.70	6.13	13.45
Russell 2000	1,429.26	-6.58	-0.46	1.41	5.33	17.43

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.35	Euro/Dollar	1.18	0.74
5-Year	1.83	Dollar/Yen	110.62	-0.48
10-Year	2.29	Sterling/Dollar	1.31	1.13
30-Year	2.89	Dollar/Cad	1.24	-0.83

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

Today, when an investor buys a stock, bond, exchange-traded fund as well as other kinds of securities, he must provide payment for the security to his investment firm within 3 business days of the trade being executed. When an investor sells a security, he must deliver the security to his investment firm within 3 business days after the trade is executed. This is done electronically, and in financial parlance, it is called the "T+3" settlement process. As of September 5, 2017, the financial services industry in the United States will move to a 2-day (T+2) settlement process. In the future, this may move to a 1-day process as our financial system's technological backbone advances. Currently, certificates of deposit and commercial paper settle on the same day, and government securities settle on T+1. The rule change from T+3 to T+2 for stocks, bonds and ETFs will enhance efficiency, reduce counterparty risk, increase financial stability, and put the United States on an equal footing with Europe which transitioned to T+2 settlement three years ago. We've come a long way. Prior to 1995, settlement took 5 days. In 18th century Europe, the standard settlement period was 14 days because couriers needed to transport cash and certificates via horseback and ship.

Economy

The most anticipated report this week was Friday's first look at second quarter GDP. Second quarter GDP advanced by 2.6% led by consumer spending which increased by 2.8%. Business fixed investment was also a bright spot advancing by 5.2%. Overall, the first six months of the year has produced growth of 1.9%. The first quarter GDP growth figure was revised down from 1.4% to 1.2%. The most alarming statistic from the Q2 GDP report was residential investment contracting at a 6.8% rate. There will be two more looks at Q2 GDP with reports on August 30th and September 28th. In other news this week, existing home sales declined by 1.8% in June to 5.52 million units. This figure came in below the consensus of 5.57 million. Over the last 12 months existing home sales have increased by 0.7%, and the median price of an existing home has increased by 6.5% to $263,800. On Wednesday, new home sales advanced by 0.8% to 610,000 in June. New home sales have now gained 9.1% year-over-year. Thursday brought us durable goods numbers, which on the surface were robust (+6.5%), but "core" non-defense capital goods orders excluding aircraft were down 0.1%. Core shipments increased by 0.2% and have now increased for five straight months.

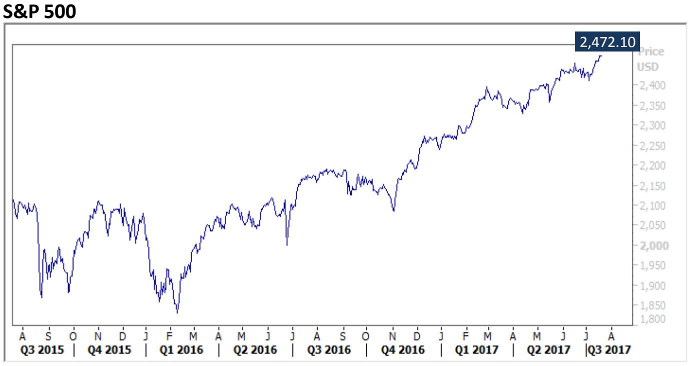
Fixed Income/Credit Market

President Trump's slow moving policies have recently put downward pressure on municipal bond ratios relative to U.S. Treasuries. The 10-year municipal ratio to U.S. Treasuries is currently 83%. As of Thursday's close, the 10-year Bloomberg Barclays Municipal Index yield as a percentage of Treasuries is 2.3 standard deviations below its trailing 5-year average, according to Bloomberg. Supply and demand dynamics have helped drive municipal bond prices higher, evidenced by the 4.35% year-to-date (YTD) total return for the Municipal Bond Index versus a 1.90% YTD total return for the U.S. Treasury Index. Nationally, the visible 30-day supply is $8.8B while the amount of debt expected to be retired is $28.9B for a net issuance of negative $20.1B. 10-year municipal debt backed by the state of New Jersey is currently trading at approximately 101 basis points above the Bloomberg 10-year AAA Muni Index, roughly 9 bps below the three-month average.

Equities

The earnings deluge continued this week as corporate earnings reports were again mostly positive. Through Thursday, almost 57% of the companies that make up the S&P 500 Index have reported their second quarter results. Reported revenue have grown by 5.7% year-over-year and 71% of companies have exceeded revenue expectations. Reported earnings grew by 12.4% year-over-year with 73% of companies reporting beating earnings expectations. Excluding the energy sector, the information technology sector led the index with top-line and bottom-line year-over-year growth 11.6% and 17.9%, respectively. The Dow Jones Industrial Average Index (DJIA) was the only major domestic large cap index to close in the black for the week, recording a gain of 1.2% compared to slightly negative returns for the other major indices. The DJIA, which contains relatively few stocks, was driven by strong earnings reports from industrial bellwethers (Caterpillar and Boeing), and from earnings surprises from the telecommunication giants (AT&T and Verizon). The broader indices were negatively impacted by weakness in technology and transportations shares.

S&P 500



Our View

With the three main developed market central bank balance sheets (U.S. Fed, ECB and BOJ) holding approximately $14 trillion in combined assets and benchmark interest rates on the front end of the yield curve hovering around 0% for close to nine years, one would think inflation would be an issue. However, year-over-year inflation at the core level in the developed markets mentioned above currently range from a low of negative 0.2% in Japan to 1.4% in the U.S. Moreover, the U.S. Fed is the only central bank in the developed market that has embarked on a very slow path of monetary policy normalization by raising rates 4 times since December of 2015. As a result, core inflation has dropped 40 basis points since February of this year, which exemplifies the moderate pace of the current economic expansion. Just last month the Fed released details on how it plans to shrink its balance sheet moving forward. It was vague on the start date by saying it should start relatively soon provided the economy evolves in line with its economic projections. Nevertheless, if core inflation does not reverse its recent downward trajectory, monetary policy normalization will be pushed further off into the future.

COMING UP NEXT WEEK		Est.
07/31 Chicago PMI	(Jul)	61.3
08/01 Personal Income MM	(Jun)	0.4%
08/01 Consumption, Adjusted MM	(Jun)	0.1%
08/01 ISM Manufacturing PMI	(Jul)	56.5
08/03 ISM N-Mfg PMI	(Jul)	57.0
08/04 Non-Farm Payrolls	(Jul)	187k
08/04 Unemployment Rate	(Jul)	4.3%

For more information about our products: http://pgbank.com