The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management
November 30, 2018

As of 11/30/2018		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	25,538.46	1252.51	5.16	2.21	3.31	5.22
S&P 500	2,760.16	127.60	4.85	1.94	3.19	4.20
NASDAQ 100	6,949.01	421.67	6.46	1.07	8.64	9.17
S&P MidCap 400	1,878.65	53.77	2.95	1.70	-1.15	-1.08
Russell 2000	1,533.27	44.59	2.99	1.48	-0.15	-0.70

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	2.79	Euro/Dollar	1.13	-0.22
5-Year	2.82	Dollar/Yen	113.53	0.50
10-Year	2.99	Sterling/Dollar	1.27	-0.54
30-Year	3.29	Dollar/Cad	1.33	0.40

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

Ultra-low interest rates have encouraged U.S. corporations to borrow heavily since the Great Recession. In the first quarter of 2008, total outstanding non-financial corporate debt was estimated at $3.4 trillion and in the first quarter of 2018 it was $6.2 trillion. This week, the Federal Reserve's Board of Governors released its initial Financial Stability Report. It summarizes the central bank's framework for assessing the resilience of the U.S. financial system. They outlined uncertainties and potential risks for the U.S. economy. Pointing to rising corporate debt from companies with weak balance sheets, the Fed said trade, Brexit, slowing emerging markets and geopolitical uncertainty could lead to investors becoming more risk averse. The Fed recognizes that valuation pressures are elevated particularly with respect to assets linked to corporate debt. The broad conclusion from the Fed report seems to be financial stability risks are moderate. Fed Chairman Powell explained their approach to mitigating emerging financial risks has three parts - build up the strength and resilience of the financial system, develop the framework for monitoring financial stability and explain the approach as transparently as possible. The report, which the Fed plans to publish semi-annually, also signaled areas where the economy is on stable footing.

Economy

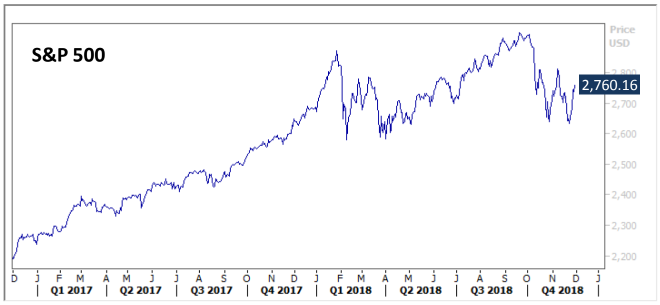
The economic headliner this week was Wednesday's report on third quarter real GDP. This was the second look at Q3 GDP and the growth of 3.5% was the same as reported on October 26th. The good news was gross domestic income surged at a 4.0% annual rate, marking the best advance in four years. Overall, the largest positive contributions came from personal consumption and inventories. Pre-tax corporate profits increased by 3.4% and there was an upward revision to business investment (+2.5% from 0.8%). In other news this week, personal income and consumption posted impressive gains. Personal income increased by 0.5% and personal consumption advanced by 0.6%. Over the past 12 months, personal income is up 4.3% and personal consumption is up 5.0%. Disposable personal income is now up 4.8% year-over-year. Finally, new home sales were reported for October and came in much weaker than expected declining by 8.9% to 544,000 units. This is the slowest pace since 2016 and over the past twelve months, new home sale prices are down 3.1%.

Fixed Income/Credit Market

On Wednesday, Fed Chairman Powell's speech at the Economic Club of New York took on a dovish tone when he commented that the Fed Funds rate is just below a range of estimates that could be considered neutral for the economy. The speech sparked a rally in short-term interest rates across the U.S. Treasury curve. However, week-over-week U.S. Treasury rates were mixed with the 1-month T-bill rising 9.0 basis points (bps) to roughly 2.31% while the 3-month T-bill decreased 5.5 bps to 2.35%. Additionally, the benchmark 2-year and 10-year Treasury spread flattened 2.9 bps to approximately 20 bps. The 10Y closes the week 5.2 bps lower at approximately 2.99%. The Fed Funds Futures Implied Rate for December 2019 currently resides at 2.705% which is indicative of two more rate hikes using the Fed Funds Rate Upper Bound of 2.25%. According to Bloomberg, one of those hikes is expected to take place at the Fed's next meeting in December with the implied probability of a rate hike currently at 77.6%.

Equities

The S&P 500 Index bounced back into positive territory for the year after posting a 4.80% gain this week. Stocks rebounded on Monday after expectations of robust consumer spending over the holiday season's biggest shopping weekend helped retail stocks lead the broader rally. This was the start to three consecutive days of gains for domestic equities which came as a relief to investors after back-to-back weeks of declines for the major indexes. On Wednesday, the S&P 500 Index and Dow Jones Industrial Average (DJIA) posted their largest single day percentage gains in eight months after the market took Federal Reserve Chair Jerome Powell's statements regarding the federal funds rate as more dovish. Investors' confidence was also boosted by favorable news around the ongoing trade disputes with China and third quarter GDP data that confirmed the strength of the U.S. economy. The S&P 500 and DJIA ended the day up 2.30% and 2.50%, respectively. Equity investors will be paying close attention to news coming out of the G20 summit in Buenos Aires this weekend where President Trump and China's President Xi are expected to discuss the future of trade and tariffs between the world's two largest economies.



Our View

World leaders are heading to the G20 summit which will focus on investment, infrastructure and development. Investors will be keenly focused on the Saturday night dinner between Chinese President Xi Jinping and President Trump. The face-to-face meeting between the two leaders will be the first in over twelve months. The trade war between the U.S. and China started the year as simply talk, but has evolved to encompass tariffs on $250 billion of Chinese goods. China quickly retaliated by placing duties on almost all the goods that enter the country from the U.S. Narrowing the massive trade gap between the U.S. and China is not the main driver of friction between the two countries. Instead, the U.S. is looking for China to stop stealing intellectual property, subsidizing industries and dumping in-expensive products abroad. If talks do not progress as planned, the U.S. could further intensify the situation by raising the tariffs on $200 billion of Chinese goods from 10% to 25% and add an additional $267 billion of goods to the tariff list. Escalation of the trade war is beginning to impact global growth and the IMF has reduced its global GDP forecast in 2019 by 20 basis points due primarily to trade tensions. Moreover, if tensions escalate further, the IMF estimates GDP in China could be negatively impacted by 1.6%. With China already experiencing a slowing economy, stumbling stock market, depreciating currency and deteriorating credit cycle, one would have to imagine that Xi will be highly receptive to a possible resolution. We believe that progress on a framework to move forward will be made this weekend between Trump and Xi, but a full solution to a trade war will take time.

COMING UP NEXT WEEK		Est.
12/03 ISM Manufacturing PMI	(Nov)	57.8
12/05 ISM N-Mfg PMI	(Nov)	59.7
12/06 Factory Orders MM	(Oct)	-2.0%
12/07 Non-Farm Payrolls	(Nov)	200k
12/07 U Mich Sentiment Prelim	(Dec)	97.0

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