Peapack Private Wealth Management

November 1, 2019

11/1/2019		Wk Net	Wk %	Div	YTD %	12 Mos %
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	27,347.36	389.30	1.44	2.25	17.23	8.89
S&P 500	3,066.91	44.36	1.47	1.88	22.34	13.10
NASDAQ	8,386.40	143.28	1.74	1.00	26.39	14.79
S&P MidCap 400	1,983.50	24.28	1.24	1.74	19.27	8.68

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.56	Euro/Dollar	1.12	0.71
5-Year	1.56	Dollar/Yen	108.15	-0.39
10-Year	1.73	GBP/Dollar	1.29	0.88
30-Year	2.21	Dollar/Cad	1.31	0.62

Source: FactSet

What Caught Our Eye This Week

This week's economic releases, in combination with the Federal Reserve's commentary, showed a resilient consumer supporting the domestic economy. A strong job market, rising incomes, and solid consumer confidence in combination with low interest rates are catalysts for the housing market and consumer spending. Several indicators suggest the consumer indeed remains in relatively good shape. After adjusting for inflation, personal income and spending (household spending) for September increased by 0.2%, while August was also revised higher. Today's news that 128,000 jobs were added during October showed solid gains relative to expectations. A recent Gallup poll on holiday spending estimates that American consumers will spend an average of $942 on gifts this Christmas, up from $885 in October 2018 and the highest October on record in the past 17 years. Concurrent with this, business owners have shied away from additional capital expenditures for the previous two quarters, leaving more of the weight of GDP growth on the shoulders of consumers. Any change in the consumer's health would materially impact the economy's growth and contribute to a slowdown.

Economy

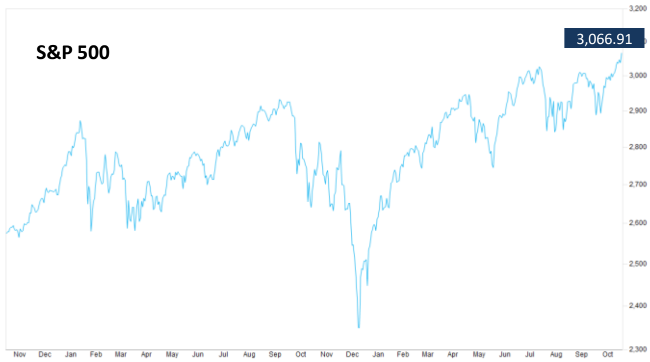
Wednesday saw the first estimate for Q3 real GDP growth come in at an annual rate of 1.9%, beating consensus expectations of 1.6%. Notably, a 5.1% rise in home building was reported, its first increase since late 2017. The GDP price index rose at a 1.7% annual rate, while nominal GDP – real GDP plus inflation – increased at a 3.5% rate for the quarter. Data showed personal income rose 0.3% for the month of September, aligning with consensus expectations. Moreover, personal consumption narrowly missed estimates and increased 0.2% and is up 3.9% from last year. The overall PCE deflator (consumer prices) and the "core" PCE deflator – which excludes food and energy due to their volatility – were both unchanged for September. Respectively, they are up 1.3% and 1.7% from the past year. The Chicago PMI index posted awful results on Thursday as well, falling from to 47.1 to 43.2. Reports showed that nonfarm payrolls rose 128,000 in October, beating expectations by about 45,000 more than anticipated. Adding to this good news was the net revision report which conveyed that 95,000 additional jobs were created in the months of August and September. Unemployment, however, ticked up to 3.6%, 10 bps higher from September; the ISM manufacturing index came in at 48.3, missing its 49.0 estimate by 70 bps.

Fixed Income/Credit Market

October was a volatile month for U.S. Treasury yields. The 10-year U.S. Treasury Note Volatility Index (TYVIX) decreased 21.4% during the month and is trading slightly more than 2 standard deviations below its one-year mean. Similarly, the MOVE Index (Merrill Lynch Option Volatility Estimate) which is a yield curve weighted index of volatility on 1-month Treasury options is trading roughly 1.5 standard deviations below its one-year mean. While U.S.-China trade relations remained uncertain and protracted Brexit negotiations continued to put downward pressure on global growth and inflation expectations, investors flocked to safe-haven assets which pushed short-term U.S. Treasury yields lower. Additionally, the FOMC's 25 basis point cut to the overnight rate contributed to a decrease of yields on the front-end of the curve. Month-over-month the curve was mixed with front-end yields dropping as much as 32.1 bps at the 1-month tenor while the 10-yr and 30-yr tenors increased 2.6 bps and 6.9 bps, respectively. October's interest rate moves increased the spread on the 2-yr and 10-yr Treasuries 12.3 bps to 16.5 bps.

Equities

The broad market rose to all-time highs this week due to stronger than expected earnings results, the Fed's rate cut of 0.25% which was the third time this year, and strong employment data. Domestic equities were positive at the start of the week on trade optimism. On Thursday, markets traded lower after reports surfaced that China does not expect to finalize a full trade deal with the Trump administration. Equity markets rallied on Friday after the Department of Labor released better-than-expected October employment report. Through the end of October, 341 S&P 500 companies have reported earnings results posting a 0.6% decline and 4.9% revenue growth year-over-year. Currently, 73.9% of companies beat EPS estimates with 60.1% exceeding revenue expectations. The best performing sector this week was healthcare gaining 3.1%. The worst performing sector was real estate down 0.73% for the week.



Our View

The FOMC did not disappoint market expectations this week and cut the Fed funds rate by an additional 25 basis points (bps). The Fed funds rate currently resides between a range of 1.50% to 1.75% and Wednesday's interest rate cut marked the third 25 bp cut since July. The decision to cut rates was not unanimous as two voting members of the FOMC dissented because they felt the domestic economy was strong enough to keep rates stable. However, the rational for the rate cut was predicated on the weakening global economy and muted domestic inflation. Moreover, the FOMC reworded the forward guidance of their statement to suggest that they will pause cutting rates moving forward unless the economic outlook changes materially from their projections. Thus, the mid-cycle adjustment is on hold for now. Recent favorable developments regarding trade negotiations between the U.S. and China and the decreased probability of a disorderly Brexit have lowered geopolitical risks to an extent. With that being said, the implied probability of a rate cut using the effective Fed funds futures at the December 11th meeting is only 20%. Looking back at history, the Fed has conducted mid-cycle adjustments in 1995-96 and 1998. In both cases the Fed cut interest rates 75 bps and it was enough to reinvigorate inflation and growth. It is important to note, however, that GDP growth during the previously mentioned timeframes was much stronger than it is today at 3.0% and 6.6%, respectively. The advance third quarter GDP growth figure was released this week and showed the economy grew at 1.9% annualized, which was 10 bps lower than the previous quarter and 1.2% slower than the first quarter. There is no doubt domestic economic growth is slowing, but it does not necessarily mean a near term recession is inevitable as the U.S. consumer, which makes up 70% of the economy is still in a good position and interest rate cuts take approximately 6 to 12 months to work their way through the system to stimulate the economy.

COMING UP NEXT WEEK		Est.
11/04 Durable Orders SA M/M (Final)	(Sep)	-1.1%
11/04 Factory Orders SA M/M	(Sep)	-0.50%
11/05 Markit PMI Services SA (Final)	(Oct)	51.0
11/05 ISM Non-Manufacturing SA	(Oct)	53.5
11/08 Michigan Sentiment NSA (Prelim)	(Nov)	96.0

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