PEAPACK PRIVATE
Wealth Management

The Weekly
Economic & Market Recap

Peapack Private Wealth Management

May 10, 2019

As of 05/10/2019		Wk	Wk		YTD	12 Mos
STOCKS	Close	Net Change	% Change	Div Yield	% Change	% Change
DJIA	25,942.37	-562.58	-2.12	2.23	11.21	4.86
S&P 500	2,881.40	-64.24	-2.18	1.93	14.97	5.84
NASDAQ 100	7,586.53	-259.20	-3.30	1.03	19.85	8.95
S&P MidCap 400	1,933.43	-47.40	-2.39	1.68	16.26	-0.23
Russell 2000	1,572.99	-41.03	-2.54	1.48	16.64	-1.92

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	2.27	Euro/Dollar	1.12	0.32
5-Year	2.27	Dollar/Yen	109.93	-1.07
10-Year	2.47	Sterling/Dollar	1.30	-1.28
30-Year	2.89	Dollar/Cad	1.34	0.01

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

Traditionally, insurers pay for patients' drug prescriptions over the course of their lifetime. This pricing model is being turned on its head due to the extraordinary cost of a burgeoning new therapeutic field – gene therapy. With gene therapy, white blood cells are drawn from a patient and target genes are inserted into the cells. The altered cells are then injected back into the patient. Drugs are incorporated into this process as well. Spark Therapeutics currently sells a drug, Luxturna, for retinal dystrophy at a price of $850,000 – the first gene therapy drug to be sold in the U.S. Bluebird Bio's blood disorder drug, LentiGlobin, is expected to be available over the next year and sell for "lower than $2.1 million" according to the company. These costs are enormous; however, a one-time application can sometimes permanently cure the disease. Few patients can afford these drugs and procedures. Because of this, drug companies are developing new pricing models. Drug companies plan to charge patients and insurers on a multi-year installment plan, and they plan to guarantee certain results. If the applications do not work as intended, the drug companies plan to reimburse the patient for the costs incurred. In the not-too-distant future, 10 to 20 gene therapy drugs could come to market each year. In an environment of health-care cost containment, it will be interesting to see which pricing schemes are ultimately adopted.

Economy

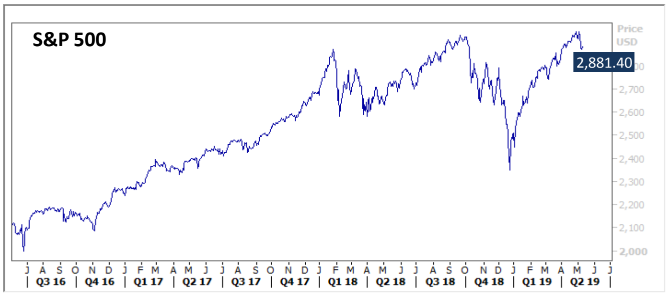
This week, the economic data centered around inflation statistics with the release of the producer price index (PPI) and the consumer price index (CPI). On Thursday, the PPI came in below expectations with a gain of 0.2% in April. Over the past 12 months, this metric has increased by 2.2%. The "core" PPI which excludes food and energy prices increased by 0.1% and is now up 2.4% year-over-year. Energy prices increased by 1.8% and food prices dropped by 0.2%. The CPI was reported on Friday and showed an increase of 0.3% in April. Gasoline prices exerted the biggest influence, surging by 5.7%. The "core" CPI posted a subdued 0.1% gain for the third consecutive month. Clothing prices (↓0.8%) and used car prices (↓1.3%) had the largest impact on "core" CPI inflation. Also the recent increase in productivity growth has caused unit labor costs to decline. Earlier in the week, the JOLTS report (job openings and labor turnover survey) showed job openings increasing to 7.5 million in March, and the "quits" rate remained at an expansion high of 2.3%.

Fixed Income/Credit Market

The U.S. investment-grade (IG) primary market was in focus this week with Bristol-Myers Squibb (BMY) and IBM issuing new debt of $19B and $20B, respectively, for financing acquisitions. On the week, there was roughly $45B priced in U.S. IG which is the highest weekly volume in approximately eight months. Given the sheer size of the offerings, the demand for investment-grade corporate bonds appears strong on the surface; however, the statistics from the IBM deal tell a different story. While BMY was 3.5 times over-subscribed on Tuesday, IBM received orders for less than twice the bonds it had for sale. The 10-year tranches for both deals priced at +105 basis points (bps) vs the 10-year U.S. Treasury for yields of 3.53% (IBM) and roughly 3.50% (BMY). For context, 10-year composite A-rated corporate bonds were trading at approximately 3.40% at the time the deals came to market.

Equities

After a very strong start to the year, domestic equities posted one of the worst weeks of 2019 with the S&P 500 declining over 2%. Investors must have been pricing in a relatively smooth path to a trade deal between the U.S. and China. This week's selloff was triggered by a tweet over the weekend from President Trump threatening an expansion on tariffs on Friday. Most of the carnage came on Tuesday after two of Trump's trade negotiators accused China of withdrawing their previous trade commitments. Although the U.S. did impose the increased tariffs and no trade deal was made, stocks rallied late in the trading session on Friday as investors turned optimistic that negotiations will continue. On the earnings front, according to FactSet, 90% of the companies in the S&P 500 have reported Q1 2019 results with 76% beating earnings expectations and 59% beating revenue expectations. The blended earnings decline for the index is -0.5% which is stronger than analysts had estimated prior to the start of the quarter. In other news, Uber began trading Friday with an IPO price of $45 giving the company a valuation of about $75 billion.



Our View

Prior to this week, the dovish pivot of the Federal Reserve coupled with stabilization of the Chinese economy and progress between the U.S. and China on trade negotiations had muffled equity market volatility. The Chicago Board Options Exchange Volatility Index (VIX) has averaged 14.4 over the past 3 months, which is 25% below the long-term average dating back to 1990. The lull in volatility vanished this week when President Trump accused China of attempting to walk back portions of the previously agreed upon trade negotiations. Furthermore, President Trump threatened to increase tariffs on $200B of Chinese goods from 10% to 25% by today if progress was not made during this week's negotiations. Unfortunately, not enough advancement was made to avert the previously mentioned tariff hikes and China has vowed to retaliate although specific details have not yet been released. Escalating trade tensions between the U.S. and China will weigh on global growth moving forward. More specifically, Bloomberg Economics estimates that Chinese GDP growth will fall 0.9% based on the tariffs currently in place and could decrease as much as 1.5% if 25% tariffs are placed on all of China's exports to the U.S. Also, U.S. GDP growth is expected to be impacted to a lesser extent with a decline of roughly 0.2% according to the International Monetary Fund. The escalation of trade tensions will weigh on business confidence, forcing companies to reconfigure their supply chains and increase U.S. import prices. However, it is important to note that the recently announced tariffs do not apply to goods currently in transit, which could heighten the sense of urgency for progress to be made. Moreover, although trade tensions have recently escalated, this may be the catalyst to reach a trade resolution sooner rather than later.

COMING UP NEXT WEEK		Est.
05/15 Retail Sales MM	(Apr)	0.2%
05/15 Industrial Production MM	(Apr)	0.2%
05/16 Housing Starts Number	(Apr)	1.200M
05/17 U Mich Sentiment Prelim	(May)	97.8

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