Peapack Private Wealth Management

July 19, 2019

07/19/2019		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	27,222.97	-109.06	-0.40	2.19	16.70	8.03
S&P 500	2,976.61	-37.16	-1.23	1.89	18.74	5.72
NASDAQ	8,146.49	-97.66	-1.18	1.02	22.78	3.72
S&P MidCap 400	1,937.40	-23.09	-1.18	1.72	16.50	-3.19

TREASURIES	Yield	FOREX	Price	Wk %Change
2-Year	1.78	Euro/Dollar	1.12	-0.27
5-Year	1.79	Dollar/Yen	107.74	-0.25
10-Year	2.04	GBP/Dollar	1.25	-0.45
30-Year	2.57	Dollar/Cad	1.31	0.34

Source: FactSet

What Caught Our Eye This Week

Made possible by the December 2018 Farm Bill, hemp is now legal in all 50 states. While hemp and marijuana are two different species of the cannabis plant, hemp has different properties than marijuana. It is low in THC, the compound that causes psychological effects and higher in cannabidiol (CBD), the compound found to have therapeutic benefits. Since the Farm Bill classifies hemp and hemp-derived products as separate from marijuana-based compounds, they now fall under the oversight of the Department of Agriculture instead of the Department of Justice. Some states still have not fully embraced CBD, but this week Ohio became the 17th state to allow stores to sell hemp-derived products. CBD derived from hemp is wildly considered to have wellness properties that can alleviate ailments including pain, inflammation, anxiety and insomnia. The FDA views CBD as a drug and this week said it will speed up its effort to establish rules for its use. The FDA is currently tolerating some products being sold intrastate as long as they are not marketed as a dietary supplement with outlandish health claims. Analysts say that annual sales of CBD could potentially be larger than marijuana sales because of the large number of products in which it can be used. Nielsen predicts the U.S. hemp-derived CBD market could be a $6 billion industry by 2025, and other researchers estimate the market could be worth $24 billion by 2023.

Economy

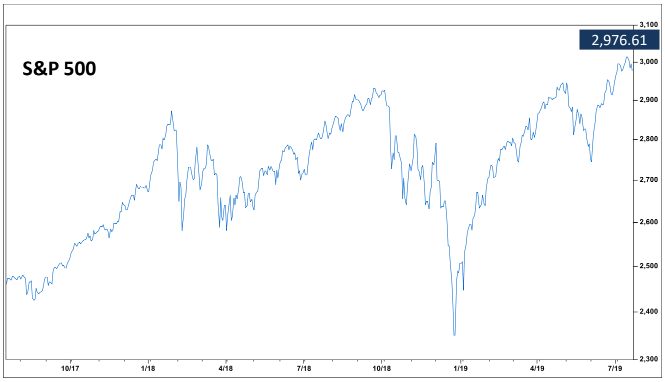
The most anticipated report this week was the retail sales report, which was released on Tuesday. Retail sales increased 0.4% in June easily exceeding expectations. The all-important control category, which excludes food service, autos, gas and building materials advanced by 0.7%. Overall, 11 of 13 major categories had higher sales. Total retail sales have now increased 3.4% over the past 12 months. During the month, online nonstore retail sales increased by 1.7%, and are now up 13.4% year-over-year. Nonstore retailers now comprise 12.5% of overall retail sales. In other news this week, industrial production was unchanged in June while manufacturing output gained 0.4%. Overall, capacity utilization declined to 77.9% from 78.1% in May. On Wednesday, housing starts showed a modest decline, coming in at 1.253 million units at an annual rate. This was slightly below expectations, but the good news emanated from single-family starts which increased by 3.5%. Single-family homes contribute significantly more to GDP than do multi-family units.

Fixed Income/Credit Market

On Thursday, the U.S. Treasury market rallied as much as 9.1 basis points (bps) at the 3-month tenor after New York Fed President John Williams seemed to advocate a 50 basis-point rate cut at the upcoming FOMC meeting on July 31st. Adding to the flight-to-quality trade was the U.S. downing of an Iranian drone over the Strait of Hormuz. The NY Fed downplayed President Williams' comments as historical context and a research point regarding the FOMC's approach to monetary easing in the 1990s. The markets, however, initially took the comments as a signal of the Fed's potential policy decision. The benchmark 2-year and 10-year Treasury yields ended the day lower by 5.6 bps and 2.1 bps, respectively. Despite the crosscurrents in the global markets, the U.S. 10-year Treasury has traded within an 18.8 basis-point range since the FOMC meeting on June 19th, averaging roughly 2.04%. The 10-year benchmark hit a high of approximately 2.14% on 7/11 and a low of 1.95% on 7/3 – it closed the week down 7.4 bps to 2.05%.

Equities

Investors are focused on a potential rate cut at month end, progress on trade talks with China, and second quarter earnings results. Earnings are expected to decline by 3.4% and revenues to increase by 3.4% year-over-year. Mixed economic data and remarks made by President Trump expressing his doubts regarding a near-term trade negotiation reversed the market's positive momentum on Tuesday and continued through Wednesday. Investor's confidence was partially restored after a top Fed official suggested a rate cut. Markets declined on Friday as investors continue to analyze mixed earnings releases and monitor the Fed's monetary policy pivot. Seventy-seven companies have reported so far and in aggregate they have outperformed consensus estimates for both top and bottom lines. Year-over-year, earnings and sales have increased 2.1% and 2.6%, respectively. The best performing sector was Consumer Staples gaining 1.4%. The worst performing sector was Energy down 2.8%.



Our View

Earlier this week China announced its second quarter GDP figure, which was up 6.2% on an annualized basis, but was the slowest pace of growth in 27 years. The headwinds facing China are formidable and range from $250 billion of trade tariffs being imposed on their exports by the U.S., to overwhelming debt loads that were largely amassed after the financial crisis to assist in hitting growth targets. The rapid growth of Chinese corporate debt was staggering. In 2007, corporate debt to GDP was 101 percent and over the course of 10 years it ballooned to 160% of GDP. To deal with the excessive debt issue, China embarked on a deleveraging campaign and cracked down on the shadow banking sector, which made it more difficult for certain firms to raise funds to repay their liabilities. The shortage of funding caused defaults to more than quadruple from 2017 to 2018 to a record amount. Increasing credit risk has caused a lot of lenders to avoid extending credit to smaller private companies. The Chinese government has taken notice and cut the required reserve ratio for banks numerous times this year and has encouraged lenders to extend credit to smaller firms. However, as Chinese economic growth decelerates, funding issues are expected to become more pronounced for weaker companies and should lead to repayment pressures that should exacerbate the default cycle. But, the market is not expecting China to have a rough economic landing as its 5-yr sovereign credit default swap trades at a very low 42 basis points, which is well below the high of 248 basis points that was recorded back in February of 2009. Even though the issues facing China are significant, it is our belief that Chinese officials will be able to provide the necessary stimulus in the near term to keep their economy moving forward in a controlled direction.

COMING UP NEXT WEEK		Est.
07/22 Chicago Fed National Activity Index	(Jun)	0.10
07/23 Existing Home Sales SAAR	(Jun)	5,330K
07/24 Markit PMI Manufacturing SA (Prelim)	(Jul)	51.5
07/25 Durable Goods SA M/M (Prelim)	(Jun)	0.65%
07/26 GDP SAAR Q/Q (First Prelim)	(Q2)	1.8%

For more information about our solutions: http://peapackprivate.com