Peapack Private Wealth Management

The Weekly
Economic & Market Recap

Peapack Private Wealth Management November 15, 2019

| 11/15/2019 | | Wk | Wk | | YTD | 12 Mos |
|---|---|---|---|---|---|---|
| | | Net | % | Div | % | % |
| **STOCKS** | Close | Change | Change | Yield | Change | Change |
| DJIA | 28,004.89 | 323.65 | 1.17 | 2.22 | 20.05 | 11.66 |
| S&P 500 | 3,120.46 | 27.38 | 0.89 | 1.86 | 24.48 | 15.51 |
| NASDAQ | 8,540.83 | 65.52 | 0.77 | 0.98 | 28.72 | 19.68 |
| S&P MidCap 400 | 2,000.60 | 2.21 | 0.11 | 1.74 | 20.30 | 8.63 |

| **TREASURIES** | Yield | **FOREX** | Price | Wk %Change |
|---|---|---|---|---|
| 2-Year | 1.61 | Euro/Dollar | 1.11 | 0.28 |
| 5-Year | 1.65 | Dollar/Yen | 108.74 | -0.38 |
| 10-Year | 1.83 | GBP/Dollar | 1.29 | 0.86 |
| 30-Year | 2.31 | Dollar/Cad | 1.32 | 0.05 |

Source: FactSet

**What Caught Our Eye This Week**

Five years ago, China's healthcare system was considered substandard in terms of quality and was closed to outside pharmaceutical providers. Today, the world's second largest economy is striving to be at the leading edge of healthcare services by providing patients access to the newest drugs and services in a timely manner. To accomplish this, China has invested billions into public hospitals and revamped its drug approval system. Drug approval time has been reduced dramatically. Prior to 2011, drug approval took 35 months but by 2016 approval time was reduced to only 11 months. China continues to add new drugs to their state medical insurance where patients pay less out of pocket. In 2018, about 40 drugs were added. So far in 2019, 120 drugs have been added. All this activity has drawn venture capital funding to China's growing biotech start-ups and global pharmaceutical companies have taken notice as well. AstraZeneca is launching a $1 billion healthcare fund in China. Amgen recently took a 20.5% stake ($2.7 billion in cash) in BeiGene, a developer of immune-oncology therapies. The deal will enable Amgen to expand its presence in China. Novartis plans to submit 50 new drugs for approval in China by 2023. China wants the global pharmaceutical companies to drop prices drastically in exchange for access to China's vast patient pool. The next ten years present an interesting window of opportunity for multinational pharmaceutical companies to address the needs of this growing market before China builds own drug development capabilities.

**Economy**

This week, the economic data centered around inflation statistics with the release of the producer price index and the consumer price index. On Wednesday, the CPI came in better than expected posting an advance of 0.4% in October. The "core" CPI also increased, rising 0.2% and is now up 2.3% year-over-year. Energy prices increased by 2.7% and food prices by 0.2%. Overall, the headline number advanced by the fastest pace in seven months. The PPI was reported on Thursday and also increased by 0.4%, slightly exceeding expectations. The "core" PPI advanced by 0.3% and is now up 1.6% year-over-year. Energy and gasoline prices rose significantly with advances of 2.8% and 7.3%, respectively. On Friday retail sales figures posted a 0.3% gain for October with once again non-store retailers dominating the landscape. Internet and mail order sales increased by 0.9% and over the past 12 months these numbers have gained 14.3%. Non-store retailers now make up 12.9% of overall retail sales.

**Fixed Income/Credit Market**

The Bloomberg Barclays Municipal Bond Index has returned 6.64% year-to-date (YTD) which is the index's highest YTD total return since it closed October 15, 2014 at 9.25%. Municipal bond performance has been driven in large part by investor appetite for tax sheltered assets and historically low interest rates across the U.S. Treasury (UST) curve. One measure of value, the muni to UST ratio, continues to look more attractive for tenors 10 years and beyond relative to shorter-dated maturities. For example, the Bloomberg AAA 30-year muni index ratio is currently at 97% of UST whereas the 10-year index is at 86.7%. However, like other fixed income sectors, municipal bonds are not isolated from duration risk. In the current environment, investors should be cognizant of how far out on the yield curve they position their portfolios so as to avoid substantial price volatility should interest rates begin to rapidly increase. For instance, if rates were to instantaneously rise 100 bps, a 10-year 2.125% coupon muni bond would lose 8.52% in principal value.

**Equities**

All three major domestic equity indices reached all-time highs this week driven by good news on trade and the economy. Equity markets had a poor start to the week as investors' concerns about a partial trade deal and escalating tension in Hong Kong dampened market sentiment. Mid-week, investors focused on congressional testimony for guidance and President Trump's speech at the Economic Club of New York. President Trump commented that a "trade deal is close" but made note if negotiations fail more tariff hikes are likely. Domestic equities posted strong gains Friday driven by positive retail sales figures and White House economic advisor, Larry Kudlow, announcing a trade deal is close. Healthcare posted the strongest performance out of all eleven sectors gaining 2.5%. Energy was the laggard down 1%.


**Our View**

U.S. GDP growth has been on a downward trend thus far in 2019 shrinking from 3.1% in the first quarter to 1.9% in the third quarter. The main tools that are used to combat slowing economic growth are monetary and fiscal policies. In terms of monetary policy, the Fed has embarked on a mid-cycle adjustment and lowered interest rates 75 basis points (bps) since July of this year. Typically, beyond asset price appreciation, the benefits of interest rate reductions work on a lag, but one of the first sectors to rebound is the interest sensitive housing sector. Moreover, third quarter GDP data revealed that housing made a positive contribution to GDP growth for the first time in over two years. According to the Bankrate 30-Year Mortgage Rates Index, the rate on a 30-year mortgage had dropped 78 bps to 3.73% from the beginning of the year through Thursday of this week. Unfortunately, the recent housing market boost will have a minimal impact on overall economic growth as the housing sector accounts for just 1.9% of total employment and only 3.7% of nominal GDP. On a different note, fiscal policy can be very stimulative to economic growth when an economy has the capacity to service additional debt and the proceeds are directed toward financially productive endeavors. Regrettably, the U.S. is not in an ideal fiscal position as its gross debt-to-GDP ratio is over 100% and the most recent annual fiscal deficit came in at 4.6% of GDP, which was just below $1 trillion. One of the major headwinds of a large fiscal deficit is that the cumbersome interest expenses to pay for the debt crowds out spending in other areas and weighs on future economic growth. With monetary and fiscal policies having limited expansionary economic growth potential at this point, one way to revive economic growth is see a resuscitation of fixed business investment, which could become a reality if the trade tensions between the U.S. and China continue to abate.

| COMING UP NEXT WEEK | | Est. |
|---|---|---|
| 11/19 Housing Starts SAAR | (Oct) | 1,320k |
| 11/21 Leading Indicators SA M/M | (Oct) | -0.10% |
| 11/22 Markit PMI Mfg SA (Prelim) | (Nov) | 51.9 |
| 11/22 Markit PMI Services SA (Prelim) | (Nov) | 51.3 |
| 11/22 Michigan Sentiment NSA (Final) | (Nov) | 95.8 |

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