The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Peapack Private Wealth Management

February 1, 2019

As of 02/01/2019		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	25,063.89	326.69	1.32	2.27	7.44	-4.29
S&P 500	2,706.53	41.77	1.57	2.00	7.98	-4.08
NASDAQ 100	6,875.52	88.15	1.30	1.11	8.62	-0.38
S&P MidCap 400	1,841.52	22.95	1.26	1.74	10.73	-5.91
Russell 2000	1,502.05	19.20	1.29	1.51	11.38	-4.93

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	2.50	Euro/Dollar	1.15	0.32
5-Year	2.50	Dollar/Yen	109.48	-0.07
10-Year	2.68	Sterling/Dollar	1.31	-0.89
30-Year	3.02	Dollar/Cad	1.31	-0.98

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

Climate change popped back into the forefront of the American public's consciousness as Pacific Gas & Electric filed for bankruptcy on Tuesday and a polar vortex (the band of strong winds high in the atmosphere which typically keeps bitterly cold air confined to the Arctic region) brought the coldest conditions in decades to the Midwestern U.S. on Wednesday. Whether or not this phenomenon (similar to the weather system that caused the East Coast's bomb cyclone related blizzard last year) is caused by global warming is open for debate. How does this affect the companies in investors' portfolios? The increasing frequency and sometimes magnitude of storms may decrease demand, disrupt supply chains and inventories, and cause risk to critical facilities. In the past few years, corporations have begun citing climate change as a risk factor in their annual filings and as recently as 2017 some 15% of S&P 500 constituents publicly disclosed a weather-related impact on earnings. Going forward, public companies can expect additional pressure from shareholders regarding disclosure, disaster preparedness, and risk mitigation.

Economy

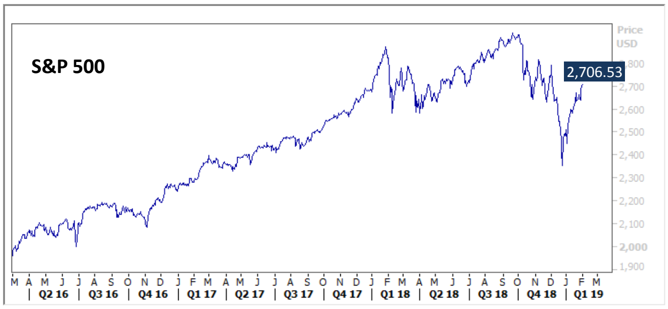
The most anticipated report this week was the nonfarm payroll report, which was released on Friday. This report showed payrolls surging by 304,000 in January, which was well above the consensus forecast of 165,000. The unemployment rate increased to 4.0%, and the U-6 measure of unemployment increased to 8.1%. Average hourly earnings increased by 0.1%, and are now up 3.2% year-over-year. The labor force participation rate increased to 63.2%. Examining the different employment sectors, manufacturing added 13,000 jobs, construction added 52,000 and leisure and hospitality gained 74,000. The only negative component of this report were the total negative revisions made to the November and December jobs reports, plus 20,000 in November but minus 90,000 in December. New home sales surged 16.9% in November to 657,000 at an annual rate. This is the largest monthly gain since 1992, and there were positive revisions made to August, September and October figures. Finally, weekly jobless claims were reported on Thursday and increased by 53,000 to 253,000 during the week ending January 26th. The four-week moving average is now at 220,000.

Fixed Income/Credit Market

It has been a strong start to 2019 for fixed income performance as all sectors that we follow provided investors with positive returns in January. The top performing sectors were preferred equity, emerging market bonds (non-currency hedged), and 0 to 5-year high yield bonds which had total returns of 5.64%, 4.78%, and 3.83%, respectively. The worst performing sectors were short-term Treasuries, municipal bonds, and short-term bonds which returned 0.20%, 0.38%, and 0.62%, respectively. The positive performances did not catch anyone by surprise as volatility subsided boosting investor confidence in riskier asset classes and interest rates across the U.S. Treasury curve continued to rally back as much as 7.5 basis points (bps) at the 5-year tenor. The 10-yr U.S. Treasury Note Volatility Index (TYVIX) began January at 4.58 and closed the month at 3.83 (exactly 1-standard deviation below the monthly mean of 4.20), a 16.38% decrease. The U.S. Treasury curve remained flat in January as the spread between the 2-yr and 10-yr tenors closed 17.1 bps, 2.4 bps flatter than where it began the year.

Equities

It was a busy week with 126 S&P 500 companies releasing their Q4 2018 earnings reports. The three major domestic equity indexes started the week in the red after reports from NVIDIA and Caterpillar heightened investor concerns over softer China growth and margin pressures. It was not until Wednesday that stocks were able to gain some traction after the Federal Reserve left rates unchanged and said it will be "patient" as it determines what future "adjustments" may be appropriate. The Fed's dovish tone, Apple's revenue and earnings beating expectations, and their revenue guidance coming in as 'better-than-feared' helped the S&P 500 gain 1.55% on the day. On Thursday, the S&P 500 closed out its best month since October 2015 and its best January in 30 years after returning +7.87%. All three major indexes ended the week up over 1.25%. Energy was the best performing sector helped by a rally in oil prices and consumer discretionary was the worst performing sector.



Our View

Only six weeks ago Fed Chairman Powell roiled already stressed financial markets when he mentioned that the runoff of the Fed's balance sheet was on autopilot and that further gradual rate increases in 2019 were necessary. Market participants were hoping Powell was going to address tightening financial conditions, slowing global growth and heightened volatility by signaling the Fed was ready to pause rate hikes moving forward. Powell's rather hawkish comments after the December FOMC meeting raised fears amongst investors that the Fed was going to over-tighten monetary policy and induce a recession. The Fed took notice of their monetary policy communication misstep and reversed course this week by emphasizing patience with respect to raising rates given minimal inflation pressures and a decelerating global economy. Powell went on to mention that the Fed's balance sheet run-off is not on a preset course and adjustments can be made if financial or economic conditions warrant it. We feel that the Fed made the right decision to pause rate hikes for now, given that the tailwind of tax reform is largely behind us, liquidity is being drained from the economy (excess depository reserves are down approximately $500 billion over the last 12-months) and inflation is below the Fed's 2.0% target even with a very strong labor market. It is interesting to note that according to Effective Fed Funds Futures, the implied probability of a rate hike at March's FOMC meeting is 0.9% and the highest probability for a rate hike in 2019 is a mere 1.4% in the middle of the year. It is our belief that based on current market and economic data, the FOMC will not increase rates in 2019; however, if inflation starts to rise and growth stabilizes, we would not be surprised to see one 25-basis point rate increase in the second half of 2019.

COMING UP NEXT WEEK		Est.
02/04 Housing Starts Number	(Dec)	1.254M
02/04 Factory Orders MM	(Nov)	0.2%
02/05 ISM N-Mfg PMI	(Jan)	57.0
02/06 Retail Sales MM	(Dec)	0.2%
02/06 Retail Control	(Dec)	0.4%

For more information about our products: http://pgbank.com