Peapack Private Wealth Management

June 7, 2019

As of 06/07/2019		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	25,983.94	1168.90	4.71	2.27	11.39	2.94
S&P 500	2,873.34	121.28	4.41	1.95	14.63	3.73
NASDAQ 100	7,417.29	289.34	4.06	1.07	17.18	3.70
S&P MidCap 400	1,892.00	81.50	4.50	1.75	13.77	-4.96
Russell 2000	1,514.39	48.90	3.34	1.54	12.30	-9.20

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.85	Euro/Dollar	1.13	1.43
5-Year	1.85	Dollar/Yen	108.18	-0.10
10-Year	2.08	Sterling/Dollar	1.27	0.79
30-Year	2.57	Dollar/Cad	1.33	-1.86

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

In the United States alone, nine-tenths of all solid waste goes unrecycled and while 75% of waste could be recycled we only recycle about 30%. As the world's oceans and ecosystem are affected by disposable plastics and the average American person creates more than 4 pounds of garbage daily, the practice of zero waste continues to gain momentum globally. While still in its early days, the zero-waste movement aims to reduce the amount of packaging waste that surged 185 percent to 78 million tons between 1960 and 2015. The zero-waste undertaking is evident in plastic bag bans, the use of paper straws by quick service restaurants, and the adoption of refillable packaging by companies. The waste management firm TerraCycle has partnered with well-known brands such as Procter and Gamble through a collaboration called Loop to offer 300 popular products in reusable glass and steel containers. It turns out that zero waste practice may be financially advantageous as well. According to the book Zero Waste Home, one family was able to reduce its overall household budget by 40% by reducing consumption, buying only what needed to be replaced, and identifying reusable alternatives to disposable resources. This is an area in which we will likely see greater adoption throughout corporate America.

Economy

The most anticipated report this week was the nonfarm payroll report, which was released on Friday. This report showed payrolls increasing by 75,000 in May, well below the consensus forecast of 185,000. The unemployment rate remained at 3.6%, a 50 year low. The U-6 measure of unemployment which captures all persons marginally attached to the labor force dropped from 7.3% to 7.1%. The labor force participation rate remained at 62.8%, as the household survey showed a 176,000 increase in the overall labor force. Examining the different employment sectors professional and business services added 33,000 jobs, healthcare gained 16,000, and construction added 4,000. In other news this week the ISM Manufacturing index declined to 52.1 in May, which was below expectations. The new orders index rose to 52.7 and overall 11 of 18 industries reported growth. On Wednesday the ISM Nonmanufacturing index increased to 56.9 in May with 16 of 18 sectors reporting growth.

Fixed Income/Credit Market

The downward pressure on U.S. Treasury yields continued during May as the U.S.-China trade tug of war protracted, the FOMC remained steadfast in resisting the need for rate cuts, and U.S. and international manufacturing PMIs (Purchasing Manager's Index) fell. During the month, total returns on the fixed income sectors that we follow were mixed. The top performing sectors were long-term bonds, intermediate-term bonds, and TIPS (Treasury-Inflation Protected Securities) which returned 4.16%, 2.13%, and 1.75%, respectively. Interest rates decreased more than 36 basis points (bps) at the intermediate to the long-end of the curve, driving the top two sector performers. Meanwhile, the U.S.-China trade impasse viewed as a potential boon to the U.S. Dollar, may have spurred investor demand in the TIPS market. May's laggards were 0 to 5-year high yield (HY) bonds, senior loans, and preferred equity which returned a respective -1.45%, -1.02%, and 0.25%. Riskier asset class performance was driven by weaker flows and high-yield credit spreads increasing 75 bps during May, according to the Bloomberg Barclays U.S. Corporate HY Index.

Equities

All major indices posted a strong start to the month of June, reversing the downward momentum experienced over the previous six weeks. The catalysts were Fed Chairman Jerome Powell's comments on Tuesday signaling a reduction in benchmark interest rates this year and positive developments on the trade war. Later in the week a report emerged that the Trump administration was likely to delay imposing tariffs on goods from Mexico, boosting investors' sentiment. The best performing sectors were Materials and Information Technology increasing 9% and 6%, respectively. The worst performing sectors were Utilities and Communication Services increasing 3% and 1%, respectively. Despite all eleven sectors posting positive returns, the U.S. benchmark West Texas Intermediate Crude (WTI) hit a 5-month low entering into a bear market. The recent negative price action was driven by the Energy Information Administration's report detailing the largest weekly inventory increase in five weeks and the highest level in two years.

Our View

The Core Personal Consumption Expenditures Index (Core PCE) is the Fed's preferred inflation gauge and in an ideal world the Fed would like to see it reside as close as possible to its 2% inflation target. Unfortunately, since the end of the financial crisis Core PCE has only exceeded the Fed's target 5% of the time and it currently resides at 1.6% on a year over year basis. The dearth of inflation, even after taking interest rates to historically low levels and flooding the economy with massive amounts of liquidity through quantitative easing, has been extremely troubling for the FOMC. Moreover, Fed Chairman Powell has stated that the lack of inflationary pressures is "one of the major challenges of our time". It is difficult to explain the exact reason for the muted inflation the U.S. economy has been experiencing but it may be partially due to the following factors. First, union membership has been on the decline which has lessened workers ability to demand higher pay. Second, U.S. workers are competing in a global workforce which has vastly broadened the supply of labor. Third, the advancement of technology has increased productivity and driven down unit labor costs. Lastly, the FOMC might have pegged the neutral interest rate (the theoretical rate that neither slows down nor speeds up the economy) at a level which is too high. The Fed is currently working on new ways to spur inflation and one idea that is gaining traction is called average inflation targeting. The premise behind average inflation targeting would be to let inflation run higher than the 2% objective to make up for periods where it ran below 2%. In the current economic environment, it would mean rates would stay lower for longer with the goal of bringing both inflation and inflation expectations higher. The probability of a Fed rate cut according to Effective Fed Funds Futures is close to 80% at the July FOMC meeting and we would not be surprised to see a Fed Funds rate cut in the near future.

COMING UP NEXT WEEK		Est.
06/11 PPI SA M/M	(May)	0.10%
06/12 CPI SA M/M	(May)	0.10%
06/14 Retail Sales SA M/M	(May)	0.60%
06/14 Industrial Production SA M/M	(May)	0.20%
06/14 Michigan Sentiment NSA (Preliminary)	(Jun)	98.0

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