What Caught Our Eye This Week

One of the next major shifts in entertainment is the adoption of esports which entails watching other people play video games. Video of gamer teams and their monitors is live streamed over platforms such as YouTube, Twitch and Mixer for all to enjoy, like going to a football game. The esports industry has been around for about five years, mostly in China and South Korea, and it is quickly gaining mainstream. According to the Wall Street Journal, the global esports audience for 2018 is expected to be about 375 million people (49 million in the U.S.). In May of this year, one competition in China drew a global audience of 128 million people. Compare this to the 2018 NFL Super Bowl which drew 103 million viewers. In these gaming competitions, money is made through advertising, team sponsorships, ticket sales and other sources. It is estimated that esports-related revenues will be over $905 million this year. Activision Blizzard, the largest gaming software company in the U.S., is building a 100,000-square-foot arena in Texas specifically designed to host professional teams of gamers and up to 2,500 spectators. This facility will be about the size of a Manhattan city block. Other large esports arenas have been built in California, Nevada, Germany, Taiwan, and China.

Economy

The economic headline this week was Wednesday’s report on second quarter real GDP. This was the second look at Q2 GDP and the figures were better than expected rising at a 4.2% annual rate. This was the strongest GDP report since Q3 2014, and it is the fifth time this cycle that quarterly GDP has exceeded 4.0%. There was some new information in this report highlighting corporate profits, which advanced by 3.3% quarter-over-quarter and are now up 7.7% year-over-year. Real domestic final sales growth came in at 3.9% and net exports made a positive contribution at 1.2%. In other news on Tuesday, consumer confidence figures hit a new cycle high advancing to 133.4 in August. The labor market differential also hit a new cycle high rising to 30. Finally on Thursday personal income and consumption posted impressive gains. Personal income increased by 0.3% and personal consumption advanced by 0.4%. Over the past 12 months, personal income is up 4.7% and personal consumption is up 5.2%. Disposable personal income is now up 5.3% year-over-year.

Fixed Income/Credit Market

Fixed income participants had plenty of headlines to digest this week. Emerging markets were weak again with fears of growing problems in Argentina. A report on Thursday that President Trump plans to impose $200 billion of tariffs on Chinese imports next week fueled the safe haven trade into U.S. Treasuries. Inflation data was in line with expectations, also adding support to the 10-year U.S. Treasury note. Globally, Italian bonds were under pressure as offshore investors have been sellers and there is concern that the government’s budget could break the European Union’s deficit limit. The spread between the German and Italian 10-year bonds widened to 288 basis points and is the highest since 2013 according to Thompson Reuters. The U.S. Treasury market continues to be attractive for investors seeking safety.

Equities

Stock market momentum carried into the last week of August, driven by progress in trade discussions and favorable consumer reports. The S&P 500 and the Nasdaq closed at record highs midweek due to reports of progress in trade discussions between the U.S. and Mexico. Furthermore, reports of consumer confidence reaching the highest in almost 18 years provided lift to market sentiment. Consumer-oriented stocks such as retailers affirmed the favorable environment, with several retail companies reporting financial reports with solid growth that beat expectations. The strong rally waned by the end of the week due to trade talks between the U.S. and Canada failing to conclude and further reports that trade talks between China and the U.S. were still contentious. Emerging markets have been under pressure due to currency weakness in Argentina and Turkey. Despite the fading rally at the end of the week in large cap stocks, the smaller company Russell 2000 remained near all-time highs on Friday.

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