The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

August 31, 2018

As of 08/31/2018		Wk	Wk		YTD	12 Mos
STOCKS	Close	Net Change	% Change	Div Yield	% Change	% Change
DJIA	25,964.82	174.47	0.68	2.12	5.04	18.30
S&P 500	2,901.52	26.83	0.93	1.80	8.54	17.41
NASDAQ 100	7,654.55	169.15	2.26	0.95	19.67	27.82
S&P MidCap 400	2,044.70	9.60	0.47	1.50	7.58	18.13
Russell 2000	1,740.74	15.07	0.87	1.30	13.37	23.87

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	2.63	Euro/Dollar	1.16	-0.16
5-Year	2.74	Dollar/Yen	111.09	-0.14
10-Year	2.86	Sterling/Dollar	1.30	0.87
30-Year	3.02	Dollar/Cad	1.31	0.15

Source: Thomson Reuters & Bloomberg

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 going 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

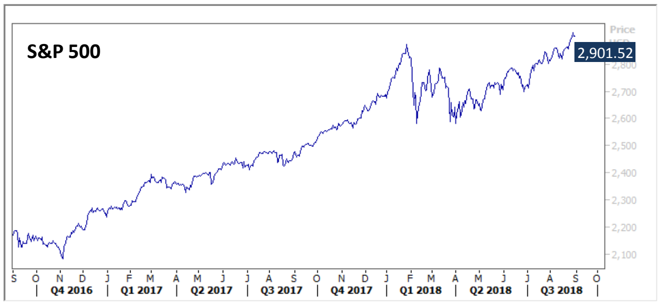
The economic headliner this week was Wednesday's report on second quarter real GDP. This was the second look at Q2 GDP and the figures were better than expected rising at a 4.2% annual rate. This was the strongest GDP report since Q3 2014, and it is the fifth time this cycle that quarterly GDP has exceeded 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.



Our View

Second quarter GDP, which initially came in at a robust 4.1% annualized pace on a quarterly basis, was revised up 10 basis points (bps) to 4.2%. The revised GDP figure reiterated that trade activity gave GDP a rare boost as exports surged in the anticipation of an escalating trade war. Personal consumption from the GDP revision was down 20 bps to 3.8%, but increased investment more than offset this decline. Thanks to the tailwinds of tax reform, after-tax corporate profits increased 16.1% annualized in the second quarter, which positions businesses well to further invest in capital expenditures, increase salaries and/or buy back shares. While a 4.2% GDP figure certainly confirms the U.S. economy is on sound economic footing, it will be difficult to maintain the current pace of economic growth as the benefits of tax reform dissipate. Also, household income creation has not grown to a level that can support 4% GDP growth in the long run. According to Bloomberg, the median projection of GDP growth for the 3rd and 4th quarters of 2018 are currently 2.9% and 3.0%, respectively. We believe that economic growth should slow from the very strong second quarter figure, but it will still be above trend with respect to the current economic expansion. On a different note, the risk-on trade was in full force early this week as investors pushed the S&P 500 to an all-time high on optimism that the U.S., Mexico and Canada will come to an agreement on an updated version of NAFTA. While the likelihood of a deal being reached has improved, it may not bring as many jobs back to the U.S. as initially hoped.

COMING UP NEXT WEEK		Est.
09/04 ISM Manufacturing PMI	(Aug)	57.6
09/05 International Trade $	(Jul)	-49.8B
09/06 ADP National Employment	(Aug)	190k
09/06 ISM N-Mfg PMI	(Aug)	56.5
09/07 Non-Farm Payrolls	(Aug)	190k

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