



1/3/2020		Wk	Wk	YTD	12 Mos
	Close	Net	%	Div	%
STOCKS	Change	Change	Change	Yield	Change
DJIA	28,634.88	-10.38	-0.04	2.22	0.34
S&P 500	3,234.85	-5.17	-0.16	1.81	0.13
NASDAQ	9,020.77	14.15	0.16	0.97	0.54
S&P MidCap 400	2,055.67	-7.21	-0.35	1.74	-0.36

  

TREASURIES	Yield	FOREX	Price	Wk %Change
2-Year	1.52	Euro/Dollar	1.12	0.02
5-Year	1.58	Dollar/Yen	108.03	-1.42
10-Year	1.79	GBP/Dollar	1.31	-0.15
30-Year	2.25	Dollar/Cad	1.30	-0.80

Source: Bloomberg/FactSet

### What Caught Our Eye This Week

Over the past ten years, favorable market conditions and a fear of missing out drove the Initial public offering (IPO) issuance to approximately \$600 billion. While stocks of IPOs are now trading 70% above their IPO prices according to Bloomberg, these results trail the S&P 500 which rose 190%. 2019 was supposed to be the year of the IPO ... and maybe it was. There were some significant IPOs in 2019, but two of the most highly anticipated (Uber & Lyft) were major disappointments. Political, economic, and interest rate risk introduced additional uncertainty into the IPO market in 2019. There also are some unsettling parallels to the tech bubble of the late 1990s. Specifically, according to Bloomberg, unprofitable companies collectively raised more cash in 2019 than in any other year since 2000, and according to BofA Merrill Lynch, the proportion of unprofitable companies that went public in 2019 reached about 70%. Nonetheless, since 1999 almost 50% of IPOs for unprofitable companies outperformed the broader market during their first year of trading. In addition, at the end of 2019, more than half of newly listed companies were trading above their issue price, compared to about 40% in 2018, according to Renaissance Capital. Their IPO Index, a basket of newly public companies, was up 33% in 2019 versus a 29% rise in the S&P 500.

### Economy

The highlight or lowlight for the week came on Friday with the release of the ISM manufacturing survey. This metric posted a 47.2 in December, which was a disappointment when compared to consensus expectations. This happens to be the lowest reading for this series since June of 2009. Looking back to February 1<sup>st</sup> of 2019, this survey came in at an impressive 56.6 (above 50 indicates expansion and below 50 indicates contraction). The most recent ISM survey reported widespread weakness when examining the underlying sub-components. The new orders index declined to 46.8 from 47.2 and the production index dropped to 43.2 from 49.1. In other news this week, the Conference Board consumer confidence index came in at 126.5 in December, which was slightly below expectations. In perspective, this metric was recently at 135.1 on August 27<sup>th</sup>. The labor market differential (jobs plentiful vs. jobs hard to get) increased by 2.3 points to an impressive 33.9. Finally, weekly jobless claims were reported on Thursday and showed a drop of 2,000 to 222,000 during the week ending December 28<sup>th</sup>. The four-week moving average is now at 233,000.

### Fixed Income/Credit Market

The FOMC increased the Fed funds rate 25 basis points (bps) four times in 2018 to close the year in a target range of 2.25% - 2.50%. At year end, the FOMC's median dot plot projected the Fed funds rate would finish 2019 at 2.90%. However, benign global growth and inflation expectations resulting from the U.S.-China trade conflict forced the Federal Reserve to change the course of their interest rate policy. The FOMC decreased the Fed funds rate by 25 bps three times in 2019 to a target range of 1.50% - 1.75%. Year-over-year, interest rates across the U.S. Treasury (UST) curve decreased anywhere from 62.5 bps (30-year tenor) to 101.8 bps (1-year tenor). Yields on the front-end of the UST curve dropped faster than longer-dated maturities which steepened the slope of the curve 15.3 bps at the 2-year and 10-year tenors, resulting in a 34.8 bp spread. Additionally, the 3-month and 10-year spread, another preferred measure of curve steepness, increased 4.7 bps to close 2019 at 37 bps.

### Equities

The beginning half of the holiday shortened week was uneventful as markets closed nearly flat as there were no new catalysts to drive equities higher. President Trump confirmed on Tuesday that a U.S.-China trade deal will be signed on January 15<sup>th</sup> before markets were closed on Wednesday for New Year's Day. Markets rallied on Thursday led by the technology sector on optimism around trade and expectations for Phase Two talks to start after the Phase One deal is signed. On Friday, investors focused on news of a bomb strike carried out by the U.S. killing Iran's top military general leading to rising tensions in the middle east. Oil prices rallied based on this news. West Texas Intermediate oil prices closed at \$63, up 3% for the day. Throughout the day, the market fluctuated but closed down 0.7% erasing gains for the week. The best performing sector was energy gaining 0.6% this week. The worst performing sector was materials down 1.9% for the week.



### Our View

Financial markets produced surprisingly generous returns for investors in 2019. The year began with a decidedly cloudy outlook due to worries over trade tensions and uncertainty regarding Federal Reserve policy. Equity markets were coming off a 15% drawdown in the fourth quarter of 2018 that drove equity returns into negative territory for the entire year, and investors were nervous about what 2019 would bring. The trade war seemed to be escalating at a time of deteriorating economic fundamentals, and investors were increasingly worried about a recession. The major concerns resolved themselves or were ameliorated as 2019 progressed. Trade tensions were on a rollercoaster last year but ultimately subsided with the announcement of a limited trade deal. Perceiving that short-term rates had become overly restrictive in the face of a deteriorating global trade environment, the Federal Reserve reversed course early in 2019. The Fed lowered rates three times during the year, cushioning the softening economic situation, which allowed equity market price-to-earnings multiples to rise. Valuations were arguably inexpensive at 13.9 times forward earnings at the start of 2019, but have now lifted to roughly 18 times as we start 2020. Equity multiples and pricing on all risk-assets benefited, not only from the central bank accommodation, but from the broad decline of interest rates across the entire Treasury curve. The yield on the 10-year dropped from over 3.20% in November of 2018 to roughly 1.50% by the fall of 2019. Lower rates have provided a massive tailwind for all asset classes but have especially lifted growth stocks, high-yield bonds, and riskier assets overall. Last year capped off a decade of well above-average returns for both equity and fixed income markets with a spectacular Q4 run. Over the last three years, the Barclays U.S. Aggregate index and the S&P 500 have had an annualized return of 4.03% and 15.2%, respectively. Given current valuations, high debt levels and muted economic growth prospects, it is likely financial markets will provide more moderate returns over the next few years.

COMING UP NEXT WEEK		Est.
01/07 Durable Orders SA M/M (Final)	(Nov)	-2.0%
01/07 Factory Orders SA M/M	(Nov)	-0.65%
01/07 ISM Non-Manufacturing SA	(Dec)	54.5
01/10 Nonfarm Payrolls SA	(Dec)	157.5K
01/10 Unemployment Rate	(Dec)	3.5%

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