PEAPACK PRIVATE
Wealth Management

The Weekly
Economic & Market Recap

Peapack Private Wealth Management

December 13, 2019

12/13/2019		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	28,135.38	120.32	0.43	2.26	20.61	14.71
S&P 500	3,168.80	22.89	0.73	1.84	26.41	19.53
NASDAQ	8,734.88	78.35	0.91	0.99	31.64	23.06
S&P MidCap 400	2,024.72	2.74	0.14	1.72	21.75	13.92

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.61	Euro/Dollar	1.11	0.79
5-Year	1.65	Dollar/Yen	109.27	0.56
10-Year	1.82	GBP/Dollar	1.33	1.82
30-Year	2.25	Dollar/Cad	1.32	-0.51

Source: Bloomberg/FactSet

What Caught Our Eye This Week

Green bonds are bonds designated to encourage sustainability through the support of climate-related or other types of special environmental projects. More specifically, green bonds finance projects aimed at energy efficiency, pollution prevention, sustainable agriculture, fishery and forestry, the protection of aquatic and terrestrial ecosystems, clean transportation, sustainable water management and the cultivation of environmentally friendly technologies. The first green bond was issued in November 2008 by the World Bank. It created a blueprint for today's green bond market by defining the criteria for projects eligible for green bond support. What was missing was transparency. Investors wanted detailed reports on the impact made from the funding provided by their green bonds. This week, the Nasdaq Nordic launched the Sustainable Bond Network, a publicly available web app that allows issuers to upload the most salient data and information about their environmentally-focused debt deals. This is expected to be an important initiative that will continue to drive growth of this asset class. In 2017, green bond issuance broke the $100 billion mark to reach a record $155.5 billion, and 2018 saw issuance of $167.5 billion. So far, 2019 issuance is about $192.3 billion and is expected to surpass $200 billion next year. Corporations are expected to lead the growth, but additional sovereign issuers will also launch green bond programs in 2020.

Economy

On Wednesday, the Consumer Price Index (CPI) showed an increase of 0.3% in November which was above expectations of +0.2%. The CPI is now up 2.1% year-over-year. The "core" CPI, which excludes food and energy, increased 0.2% in November and 2.3% versus a year ago. The rising prices were broad-based with only the index for new car prices showing a decline. The Producer Price Index (PPI) was unchanged in November which was lower than expectations for an increase of 0.2%. A rise in goods prices was offset by a decline in costs for services. Producer prices are now up 1.1% on an annual basis which also came in below expectations of +1.3%. Initial jobless claims surged to 252,000 for the week ended December 7th which is the highest reading since September 2017. This data likely does not signal a pickup in layoffs as the claims data tends to be volatile in the period following Thanksgiving. Finally, on Friday, retail sales showed an increase of 0.2% in November compared to expectations for a rise of 0.5%. The number was led by non-store retailers (internet and mail order), autos and gas stations. The largest decline was at health and personal care stores. Retail sales are now up 3.3% year-over-year.

Fixed Income/Credit Market

The FOMC met on Wednesday and kept the policy rate unchanged with a target range of 1.50% - 1.75%. The markets seemed unphased by the announcement. Despite there being no change to the Fed funds rate, the median FOMC dot plot projection fell 25 basis points (bps) from 1.875% in September to 1.625% through 2020. The fed funds futures implied rate 1-year forward is currently 1.31% with a 65.9% probability of a rate cut in December of next year, according to Bloomberg. Week-over-week the U.S. Treasury curve modestly flattened at the 2-year and 10-year spread 0.3 basis point to 21.8 bps. Year-to-date (YTD) the 2-year and 10-year spread has averaged roughly 16.2 bps peaking at 28.6 bps on both June 19th and the 21st. The spread is currently 0.83 standard deviation above the YTD average. The forward curve matrix on Bloomberg is forecasting a marginally steeper U.S. Treasury curve with the 2 -year and 10-year spread 3.8 bps higher at 25.6 bps one-year from now.

Equities

Thursday snapped three days of relatively quiet activity for equities as news from President Trump indicated that the U.S. and China were very close to finalizing a phase one deal. This, in combination with Boris Johnson's sweeping victory in the U.K., resulted in the S&P 500 and Nasdaq Composite booming to record intraday and closing highs. Respectively, the two indices finished Thursday at 3,168.58 (+0.9%) and 8,717.32 (+0.7%). The Dow Jones Industrial Average also hit a new intraday record on the day. On Friday, early reports revealed that President Trump had signed off on a phase one deal but was awaiting final approval from Chinese officials. A tweet from President Trump mid-morning however, confirmed China's official endorsement of the deal. The agreement is set to expunge the planned December tariffs, but leave the 25% tariff on Chinese imports in place and reduce the 15% levies on other goods to 7.5%. The deal also calls for China to purchase $50 billion of U.S. agricultural products in 2020. Despite the positive news, markets experienced high volatility on the day, but ultimately closed up to round out the week. The week's top performing sector was information technology, up 1.98%, while real estate lagged at -2.39%.

Our View

Over the last few weeks, global uncertainties, such as the U.K. elections and the December 15th deadline for additional Chinese tariffs, have been weighing on markets and have caused equity markets to be listless and the Treasury yield curve to flatten. The major elements that have produced uncertainty for financial markets have been the outlook for monetary policy and the escalation of global protectionism. Regarding monetary policy and the Fed, financial markets now seem to have clarity. The Fed would need to see a substantial acceleration above its long-term inflation target of 2% to warrant an increase in the fed funds rate. After having to make a mid-course correction this year by lowering rates, quickly reversing most of the four rate increases from 2018, the Fed will not want to repeat the same mistake. Lowering rates seems to be more likely but would require the economy to materially falter off its 2% growth path. The announcement of a phase one trade deal between the U.S. and China on Friday will reduce trade tensions. We expect things to be relatively quiet on the trade front in 2020. Investors can now focus their attention on the economic and market fundamentals for next year. Economic growth will be modest with perhaps a slight pick-up in inflationary pressure due to a gradual tightening of labor markets. Inflationary conditions are not likely to be sufficiently strong enough to meaningfully drive rates higher or the PCE deflator above the Fed's 2% target. There is not a compelling reason for price-to-earnings multiples to adjust, so that domestic equity returns will be a function of earnings growth. With the potential relief from a trade deal, international markets that have lagged for many years may be more rewarding for equity investors.

COMING UP NEXT WEEK		Est.
12/16 Markit PMI Manufacturing (Prelim)	(Dec)	52.8
12/17 Housing Starts SAAR	(Nov)	1,330K
12/17 Industrial Production SA M/M	(Nov)	0.85%
12/19 Leading Indicators SA M/M	(Nov)	0.15%
12/20 Michigan Sentiment NSA (Final)	(Dec)	99.2
12/20 Personal Income SA M/M	(Nov)	0.30%

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