PEAPACK PRIVATE
Wealth Management

The Weekly
Economic & Market Recap

Peapack Private Wealth Management

April 5, 2019

As of 04/05/2019		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	26,424.99	496.31	1.91	2.17	13.28	7.83
S&P 500	2,892.74	58.34	2.06	1.90	15.40	8.64
NASDAQ 100	7,578.84	200.07	2.71	1.03	19.73	14.92
S&P MidCap 400	1,948.91	52.64	2.78	1.64	17.19	3.05
Russell 2000	1,582.56	42.82	2.78	1.46	17.35	2.57

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	2.34	Euro/Dollar	1.12	0.01
5-Year	2.31	Dollar/Yen	111.73	0.78
10-Year	2.50	Sterling/Dollar	1.30	0.06
30-Year	2.90	Dollar/Cad	1.34	0.31

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

Lyft, a company that provides peer-to-peer transportation and on-demand ride-sharing, priced its initial public offering (IPO) amidst much fanfare last Friday. The electronic bond trading platform Tradeweb came public late this week and saw its stock rise by almost 33% on its first day. Many investors are interpreting the increased appetite for IPOs and a burgeoning slate of pending listings as a signal of late-cycle risk-seeking behavior that is reminiscent of the late 1990s. However, recent activity for the IPO market does not exactly support these concerns. Renaissance Capital Research points out that the first quarter has been the slowest (in terms of deal count) during the last three years, with only 18 IPOs priced raising a total of $4.7 billion. For now, the post-deal price movement in Lyft suggests investor sentiment remains wary rather than euphoric.

Economy

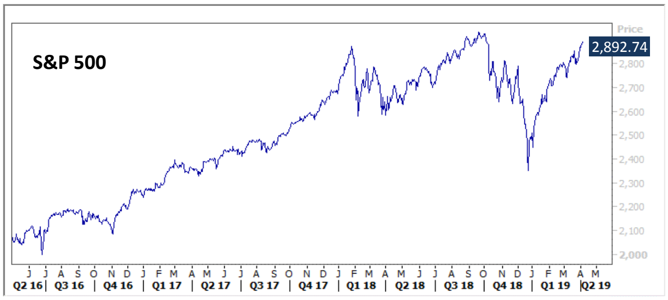
The most anticipated report this week was the nonfarm payroll report, which was released on Friday. This report showed payrolls increasing by 196,000 in March, which was above the consensus forecast of 180,000. The unemployment rate was unchanged at 3.8% and the U-6 measure of unemployment held steady at 7.3%. Average hourly earnings increased by 0.1% and are now up 3.2% year-over-year. The labor force participation rate decreased from 63.2% to 63.0%. Examining the different employment sectors, health care added 49,000 jobs while manufacturing lost 6,000 jobs. In other news this week retail sales for February dropped by 0.2%, but there were positive revisions made to the January figures. The all important control category, which excludes food service, autos, gas and building materials also declined by 0.2%. On Tuesday, February durable goods orders dropped by 1.6%, but are still up 1.8% year-over-year. Core capital goods orders decreased by 0.1% and core capital goods shipments were unchanged.

Fixed Income/Credit Market

Fixed income performance in the first quarter was strong thanks to a dovish Fed which helped compress interest rates, global economic growth concerns, and benign inflation expectations. The sectors that we follow all had positive quarterly returns with the top performers being preferred equity, emerging markets debt (non-currency hedged) and short duration high yield (HY) bonds which returned 7.81%, 6.79%, and 6.21%, respectively. The strong performance in some of the riskier asset classes was not surprising. Moreover, according to the Bloomberg Barclays U.S. HY Aggregate index, HY credit spreads decreased 135 basis points (bps) in the first quarter. The slowdown in global growth coupled with U.S. inflation hovering below the Fed's 2% target allowed the long end of the U.S. Treasury curve to compress 20 bps at the 30-year tenor and caused longer duration bonds to return close to 6.00% for the quarter. On the other hand, the worst performing sectors for first quarter were the least risky sectors as short-term Treasuries, international Treasuries, and short-term investment grade bonds returned 0.89%, 1.21%, and 1.69%, respectively.

Equities

The broad market extended last week's gains posting seven consecutive days of positive returns. China's manufacturing data, comments regarding plans to suspend the 25% tariffs on U.S. auto parts, improving U.S. and China trade negotiations, and a strong March jobs report helped guide the market higher. The Financial Times reported that U.S. and China trade officials have resolved many trade issues, such as intellectual property rights, and plan to extend negotiations until the end of June. Thursday's Fedspeak highlighted optimism around the U.S. economy encouraging a risk-on sentiment for investors. Supply concerns, due to several factors, led to oil rising approximately 4.75% week-over-week closing the week at $63.32/bbl. Materials and Financials outperformed gaining 5.13% and 3.67%, respectively. Consumer Staples and Utilities posted the worst performance down 0.62% and 0.55%, respectively.



Our View

The risk-on trade has been in existence since the beginning of the year. Because the shift in market sentiment was caused by a sharp change in direction regarding monetary policy from both the Federal Reserve and the European Central Bank, the risk-on trade did not rowel the bond market. In fact, through the end of the first quarter, rates have dropped precipitously with the yield on 10-year U.S. Treasury 27 basis points lower to 2.41%. Credit spreads, consistent with the risk-on market attitude, have dropped to extremely tight levels. The dollar has been relatively flat. It would seem to be the perfect formula for emerging market stocks to begin to perform better due to a benign dollar, a more accommodative stance by the central bankers and lower rates across the curve. Emerging market equities have dramatically underperformed U.S. equities over the last decade. The MSCI EM Index has returned only 6.95% over the last ten years versus the S&P 500 which has returned 15.43%. The bull market has driven the market capitalization-to-GDP ratio to roughly 134% for U.S. domestic equities from its bottom of 57% in 2008 (using the Wilshire 5000 as a proxy for the market). The current level is only modestly below its prior peak of 136.5% immediately before the dot.com bubble burst in 2000. By comparison, emerging markets have a stock market capitalization-to-GDP ratio of only 58.1%. Emerging markets account for only 25% of aggregate global market capitalization but makeup over 43% of global GDP. There are valid reasons for developed markets to trade at higher valuations. Developed markets are politically more stable and offer better legal protections for providers of capital. Most importantly, investors in emerging markets need to accept currency risk and are exposed to less liquid markets. At some point, the dynamics of higher economic growth, more attractive demographics and a reasonable valuation will begin to drive capital into emerging markets. A trade deal that lifts pressures on the Chinese economy could be the trigger that turns investor interest.

COMING UP NEXT WEEK		Est.
04/08 Factory Orders MM	(Feb)	-0.6%
04/10 CPI MM, SA	(Mar)	0.3%
04/11 PPI Final Demand MM	(Mar)	0.3%
04/12 U Mich Sentiment Prelim	(Apr)	98.0

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