PEAPACK PRIVATE
Wealth Management
The Weekly
Economic & Market Recap

Peapack Private Wealth Management

July 26, 2019

07/26/2019		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	27,140.98	-13.22	-0.05	2.19	16.35	6.79
S&P 500	3,025.86	49.25	1.65	1.86	20.70	6.32
NASDAQ	8,330.21	183.72	2.26	0.99	25.54	5.02
S&P MidCap 400	1,983.14	45.74	2.36	1.68	19.25	-0.27

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.85	Euro/Dollar	1.11	-0.85
5-Year	1.85	Dollar/Yen	108.66	0.85
10-Year	2.07	GBP/Dollar	1.24	-0.94
30-Year	2.60	Dollar/Cad	1.31	0.42

Source: FactSet

What Caught Our Eye This Week

Natural gas prices have fallen to their lowest summer levels in two decades. Natural gas prices typically move higher during the summer, as demand from electric power plants surges to power air conditioners. This construct was turned on its head this week for natural gas prices. Prices for August natural-gas futures traded down 3.4% on Friday to $2.15 per million British thermal units, marking 3-year lows for the commodity and the lowest July price since 1999. Despite all-time highs in exports to Mexico and other overseas markets, as well as record consumption of electricity during the recent heatwave in the Eastern U.S., natural gas markets remain in over-supply. What is the culprit? With the rise in oil prices, which are up +24% year-to-date, drilling activity in the Permian Basin has increased dramatically. Natural gas is a byproduct of drilling for crude. Therefore, there is an abundance of natural gas due to the rise in oil prices. Until the supply-demand equilibrium comes closer to being in balance, investors are likely to remain cautious.

Economy

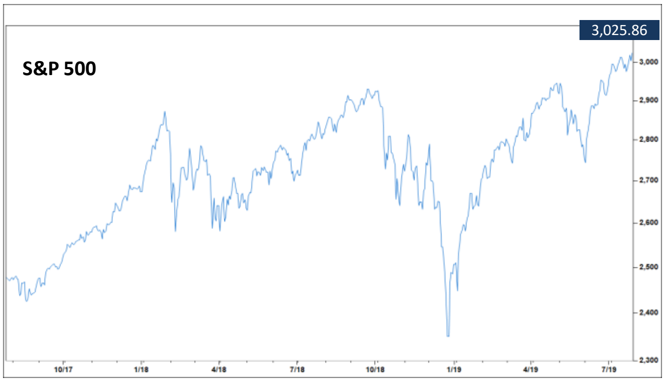
The economic headliner this week was Friday's report on second quarter real GDP. This was the first look at Q2 GDP and growth was reported at 2.1%. Consumption growth accelerated to 4.3% and final sales to domestic purchasers increased by 3.5%. On the negative side, business investment declined by 0.6% and residential investment dropped by 1.5%. There was also a huge drag from inventories, which subtracted 0.9% from real GDP growth. The personal savings rate dropped from 8.5% to 8.1%, but these levels are well above normal. In other news this week, existing home sales came in short of expectations decreasing by 1.7% to 5.27 million units at an annual rate in June. This is the 16th consecutive month of annual declines in sales. The median sales price is now at $285,700. On Thursday, we were pleased to see orders for durable goods advance by 2% in June which was well above consensus. Core capital goods orders increased by 1.9% and core capital goods shipments gained 0.6%. Core capital goods orders are one of the best leading indicators for the U.S. economy, and core capital goods shipments are used by the government to calculate business investments for GDP purposes.

Fixed Income/Credit Market

Looking at U.S. ETF fund flows for the week indicates investors continued utilizing bonds as a safe-haven asset class. According to Bloomberg, U.S. equity ETFs had net outflows of $1.5B week-over-week, while U.S. fixed income ETFs added $5.04B. A mixed corporate earnings season coupled with the expectation that the Fed will cut the Fed Funds rate by 25 basis points on July 31st have given investors concerned about corporate performance a temporary reprieve. By asset class, corporate bond funds had the biggest net flows for the week at $2.3B which was a 1.1% increase to its market cap. Aggregate bond funds and government funds added roughly $907MM and $790MM, respectively. With the U.S. Treasury curve still extremely flat, investors continue to chase yield. High yield fixed income funds added $1.5B which increased its market cap 2.5% while investment grade funds added approximately $1.2B for a market cap increase of 0.5%. Intermediate and long-duration funds added roughly $937MM and $616MM equating to market cap increases of 0.7% and 1.8%, respectively.

Equities

The S&P 500 closed at an all-time high on Friday and has now gained over 20% so far this year. The catalysts driving equities higher this week were earnings results and news on the U.S.-China trade negotiations. On Tuesday, Bloomberg reported that U.S. trade delegators will travel to Shanghai on Monday to resume face-to-face talks with their Chinese counterparts which should serve as an opportunity to plot a path forward. According to Zacks, as of Wednesday, 138 members of the S&P 500 have reported Q2 earnings results. Total earnings are up 2.8% year-over-year on 3.4% growth in revenues with 79% of the companies beating earnings estimates. Overall, this earnings season has generally been viewed as better than expected. FactSet sees the high-level takeaways to be that the U.S. demand backdrop remains fairly resilient and guidance seems better than feared. The best performing sector was communication services which gained over 4.5% due to a very strong earnings report from Google.



Our View

The U.S. domestic economy has slowed, but we expect growth to stabilize close to its long-term growth trend of approximately 2%. The consumer side of the economy has been solid with generally favorable economic conditions. Unemployment remains very low, and monthly nonfarm job gains have averaged a relatively robust 172,000 new jobs in 2019, driving consumer spending in the second quarter. The manufacturing segment of the economy, on the other hand, has deteriorated due to the impact of the trade war. Weak business-fixed investment and the deteriorating ISM manufacturing index numbers suggest that the manufacturing side of the economy has been the economy's primary vulnerability. The problem has been far more pronounced in Europe because the European economy is far more dependent on trade. The Eurozone exports goods and services worth 28% of its economic output each year versus only 12% for the United States. On a per-capita basis, Germany exports ($21,000) three times as much as the U.S. ($6,800) and according to the Organization for Economic Cooperation and Development, one in four jobs in Germany depend on exports. Additionally, exports to China from the Eurozone represent a much more significant portion of their total exports. The contraction of global trade has had a dramatically greater impact on Europe. This week, the ECB strongly signaled its intention to cut rates at its September meeting which would be the first time since 2016. The Federal Reserve is widely expected to take the lead by lowering the target on the fed funds rate next week. Central banks have a limited capacity to fight a full-blown recession with the monetary policy tools currently available to them. They may feel it would be better to act early and prescriptively to prevent a downturn, than to risk a recession.

COMING UP NEXT WEEK		**Est.**
07/30 Personal Consumption Expenditure	(Jun)	0.30%
07/30 Consumer Confidence	(Jul)	125.0
08/01 ISM Manufacturing SA	(Jul)	52.5
08/02 Nonfarm Payrolls SA	(Jul)	155.0K

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