The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

November 9, 2018

As of 11/09/2018		Wk Net	Wk %	Div	YTD %	12 Mos %
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	25,989.30	718.47	2.84	2.15	5.14	10.77
S&P 500	2,781.01	57.95	2.13	1.90	4.01	7.59
NASDAQ 100	7,039.15	73.86	1.06	1.05	10.08	11.55
S&P MidCap 400	1,882.54	20.14	1.08	1.68	-0.95	3.09
Russell 2000	1,549.49	1.51	0.10	1.47	0.91	5.05

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	2.92	Euro/Dollar	1.13	-0.46
5-Year	3.04	Dollar/Yen	113.79	0.49
10-Year	3.19	Sterling/Dollar	1.30	-0.03
30-Year	3.39	Dollar/Cad	1.32	0.60

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

The midterm elections have further eased marijuana restrictions in the U.S. Now, 10 states and D.C. have approved recreational use and 33 states have approved medical marijuana. A Gallup poll last month found 66% of Americans now support the legalization of marijuana. Moreover, Gallup found that majorities of all political identification groups are in support – Democrats (75%), Independents (71%) and Republicans (53%). Mexico has submitted legislation to legalize the possession, public use, growth and sale of marijuana. If it passes, Mexico would join Canada (approved last month) and Uruguay as the countries that permit recreational use and allow its commercialization. Here in the U.S., Senators Gardner (Colorado) and Warren (Massachusetts) have sponsored a bill that would have the legal status of marijuana determined at the state level. If this bill passes, the Veterans Equal Access Act would allow doctors in the Department of Veteran Affairs to authorize medical cannabis for patients in states where use is legal. Analysts at Cowen & Co. have done substantial research on cannabis and now estimate the cannabis market to generate $75 billion in sales by 2030 making it a substantial market. Many U.S. companies are making investments in the sector with the expectation that it could be legalized here within 5 years.

Economy

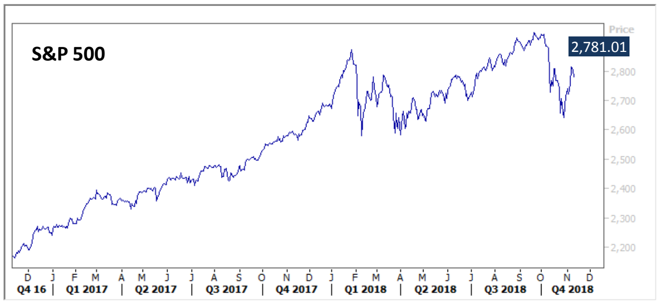
This week the FOMC announced they are holding the Fed funds rate steady at the target range of 2.00 – 2.25%. This came as no surprise, but it looks almost certain that there will be a rate hike at the December meeting. On Monday, October's ISM non-manufacturing index declined to 60.3 from 61.6 in September but beat consensus expectations of 59.0. Although there was a decline, the reading sits at the second highest level since 2005 and all the major measures of activity remain well above 50 which signals expansion. On the employment front, the JOLTS report (job openings and labor turnover survey) showed 7.0 million job openings in September. The job openings rate came in at 4.5%, and the quits rate was little changed at 2.4%. This report also showed a net employment gain of 2.5 million over the past 12 months. Finally, on Friday, the Producer Price Index came in well above expectations showing an increase of 0.6% in October. This is the largest single-month increase in more than six years. The "core" PPI, which excludes food and energy prices, also advanced by 0.5%. Producer prices are now up 2.9% over the past twelve months.

Fixed Income/Credit Market

Volatility continued in the fixed income markets this week. With the expectation that the Fed will continue to gradually tighten, we favor short-duration high quality assets. Our internal relative value analysis this week shows 5-year discounted Callable Agencies yield roughly 60 basis points (bps) over a like duration U. S. Treasury. For example, the Federal Farm Credit Bank (FFCB) has an outstanding issue with a 3.44% coupon and a 5/8/23 final maturity; however, due to the bond's call feature, the expected workout date is just two years forward. If the bond is called at par in November of 2020, it will yield 3.57% for a 60 bps spread vs the government curve and 48 bps vs its benchmark 5-year Treasury. In the event the bond is not called in two years, you then own a 3-year asset with a 3.44% coupon while today's forward curve is showing the 3-Year Treasury yielding just 3.14% two years from now.

Equities

Markets began the week mixed as investors tabled concerns over global trade, rising interest rates, and the location of Amazon's HQ2 as they awaited the results of Tuesday's midterm elections. The outcome met consensus, with Democrats gaining control of the House of Representatives and Republicans hanging onto the Senate. Stocks responded with glee to the anticipated gridlock which has historically been positive for markets. Stocks retreated on Thursday when the Federal Reserve indicated it intends to continue gradual interest rate increases. Earnings for the 419 S&P 500 members that have reported so far are +26.6% from the same period last year on +8.9% higher revenues, with 79% beating EPS estimates and 63.2% beating revenue estimates. Total earnings for the index are expected to be up +24.8% on +8.1% higher revenues from the same period last year. The strongest sector for the week was Healthcare, +4.01% and the weakest was Communication Services, -0.19%.



Our View

The midterm election is now behind us. Investors were reassured as election results were largely consistent with the market's expectations prior to the election, so equity markets experienced a strong relief rally. In direct contrast to the October selloff, which to some degree was precipitated by the uncertainty regarding the election and fear over a potential significant shift in economic policy, the rally this week was a recognition of the likelihood of legislative gridlock ahead. Given the rancor in Washington, it will be difficult to find bipartisan compromise in many areas, but infrastructure spending seems to be an interest shared by both the administration and House Democrats. Pharmaceutical pricing and health care spending is another area that could present common ground for both parties to work together. The equity market overall may benefit as a divided government has traditionally provided a constructive environment for investors. A divided government tends to hamstring the more extreme ambitions and constrain policy shifts. Historically, the six months following the midterm election has been a good time to be invested in equities. Despite growing concerns over more constrictive monetary policy, current economic fundaments remain favorable for equities. As a final thought, the election outcome was not surprising, but it was striking how engaged the electorate was and how much money was spent. According to the Federal Election Commission, campaign filings indicated that $4.7 billion had already been spent on the midterm elections through the middle of October and spending was projected to top $5.2 billion by the November election. That marks a significant increase from just four years ago when politicians spent a midterm record of $3.8 billion.

COMING UP NEXT WEEK		**Est.**
11/14 Core CPI YY, NSA	(Oct)	2.2%
11/15 NY Fed Manufacturing	(Nov)	20.0
11/15 Retail Sales MM	(Oct)	0.5%
11/15 Retail Control	(Oct)	0.3%
11/16 Industrial Production MM	(Oct)	0.2%

For more information about our products: http://pgbank.com