The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Peapack Private Wealth Management

February 8, 2019

As of 02/08/2019		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	25,106.33	42.44	0.17	2.28	7.63	5.22
S&P 500	2,707.88	1.35	0.05	2.01	8.01	4.91
NASDAQ 100	6,913.13	37.61	0.55	1.10	9.21	9.63
S&P MidCap 400	1,852.45	10.93	0.59	1.74	11.39	2.84
Russell 2000	1,506.39	4.34	0.29	1.51	11.70	2.91

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	2.47	Euro/Dollar	1.13	-1.13
5-Year	2.44	Dollar/Yen	109.72	0.19
10-Year	2.63	Sterling/Dollar	1.29	-1.12
30-Year	2.98	Dollar/Cad	1.33	1.27

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

Corporate America has repurchased almost $5 trillion of stock since 2009, according to JP Morgan Research. Last year, U.S. companies announced a record $1 trillion of stock buybacks. These buybacks are expected to be funded mainly by cash. Companies have increased liquidity due to tax reform. Debt-funded buybacks accounted for 14% of the total in 2018, down from 34% in 2017. Corporate stock buybacks theoretically benefit share-holders by reducing the shares in circulation and thus increasing the com-pany earnings per share. Buybacks are a way of returning capital to investors who will benefit if the shares are repurchased at a lower value than where the shares are expected to trade. Interestingly, Apple bought back 342 million shares during the first three quarters of 2018. In the fourth quarter, the company only repurchased 38 million shares during which the share price lost more than 30% of its value. Not everyone agrees with corporate executives that share repurchasing is an appropriate practice and some politicians have issued a response. Senators Schumer (D-NY) and Sanders (I-VT) are planning to introduce a bill that would prohibit a company from buying back its own stock unless it invests in its workers first.

Economy

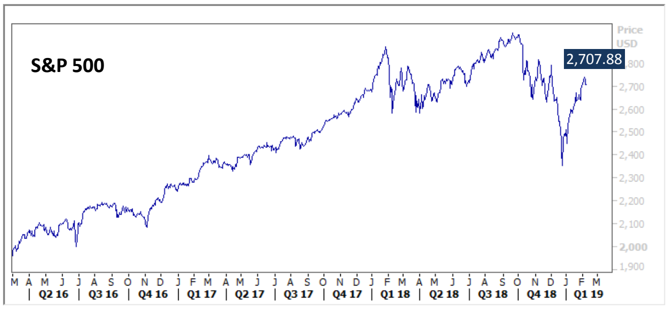
There was little economic data for investors to peruse this week. On Monday, November's new orders for durable goods showed an increase of 0.7% to $250.8 billion, down from the prior reading of +0.8% and below consensus estimates of +1.5%. Although it came in below expectations, this month's increase follows two consecutive monthly decreases in the number. January's ISM non-manufacturing index showed a decline from December's revised 58.0 to 56.7, which also came in below expectations of 57.1. Further-more, the new orders index fell to 57.7 from 62.7 in December. The major measures of activity were mixed, but all remain above 50 signaling expan-sion. Later in the week, weekly jobless claims numbers were released. Initial jobless claims declined 19,000 to 234,000 for the week ended February 2. This number came in above consensus estimates of 221,000 and the four-week moving average is now 224,750.

Fixed Income/Credit Market

Looking at U.S. ETF fixed income fund flows year-to-date (YTD) indicates investors have begun repositioning their portfolios. The shift follows a series of downward revisions for the 2019 global growth outlook and the FOMC signaling a temporary suspension of additional rate hikes. Aggregate bond ETFs saw net outflows of $2.2B which was a 1.1% decrease to its market cap allocation. However, investors added approximately $11.8B and $2.5B to their corporate bond and emerging market debt allocations, respectively. The move into corporate bonds illustrates that concerns over Fed policy hampering corporate profits have abated and emerging market debt may be benefiting from a less hawkish Fed which is lessening upward pressure on the U.S. Dollar. Safe-haven assets in the form of government bonds had net inflows of $5.3B for a 4.2% increase. Additionally, it appears that investors are now willing to add a bit of duration risk as ultra-short and short-term ETFs saw combined outflows of $1.7B while intermediate and long-term funds increased $10.1B.

Equities

Over two-thirds of the S&P 500 constituents have reported results for the fourth quarter of 2018 thus far. The blended earnings growth for the S&P 500 stands at 13% year-over-year with 71% of the market beating analysts' estimates, in line with the five-year average. The blended revenue growth rate stands at 7% and 62% of the companies reported results greater than consensus, slightly above the five-year average. The only sector so far to show a decline in earnings growth year-over-year is Utilities, down 1.1%. The market's positive momentum reversed after CNBC reported on Thursday morning that an expected meeting between President Trump and Chinese President Xi Jingping was unlikely to take place before the March 1st dead-line. The S&P declined 1.4% for the day because of this news and most major indexes closed flat to modestly lower on the week., but a day late Friday the market paired back all of the day's losses and closed one point ahead of the prior week's close. Energy was the worst sector declining over 3% week-over-week as oil prices fell over 5% since last Friday's high due to concerns about global demand and political crisis in Venezuela. Utilities out-performed all other sectors for the week gaining 2.1%.



Our View

Equity markets turned down toward the end of this week caused by an intensification of trade concerns and investors becoming increasingly worried about global growth. The latest January PMI surveys, as well as other economic data, for both China and the eurozone, indicate that manufacturing in these regions is rapidly falling toward recessionary levels. Europe is a concern due to the economic impact of slowing trade and the looming possibility of a hard Brexit. Conversely, the U.S. economy manufacturing surveys strengthened in January and are at levels that suggest continued solid industrial output and are consistent with GDP growth of approximately 3%. The U.S. economy is somewhat insulated from global slowing because it is relatively closed and service-oriented, but ultimately there will be some impact from slowing global growth. Domestically, the Fed's latest Senior Loan Officer Survey suggests, after many years of loosening credit standards, banks are beginning to tighten standards on a range of loans. Banks tighten standards because of lower risk tolerance and in anticipation of deterioration of credit quality and weaker collateral values. Invariably, as the extension of credit tightens, economic activity becomes more difficult to finance, and the economy slows. Perhaps GDP growth could even dip below trend for a few quarters. With the global economic weakness and the anticipated softening of growth in the U.S., it is not surprising the Fed has decided to stop hiking rates. The tightening of financial conditions in the fourth quarter has yet to run its course, and until there is evidence that global growth is no longer contracting, it is very likely that central banks will be on the sidelines. Forward progress for equity prices will also be more difficult.

COMING UP NEXT WEEK		Est.
02/14 Durable Goods	(Dec)	1.8%
02/14 Retail Sales MM	(Dec)	0.1%
02/15 Industrial Production MM	(Jan)	0.1%

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