Peapack Private Wealth Management

August 9, 2019

08/09/2019		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	26,378.19	-106.82	-0.40	2.27	13.08	3.11
S&P 500	2,918.65	-13.40	-0.46	1.93	16.43	2.13
NASDAQ	7,959.14	-44.93	-0.56	1.05	19.95	0.90
S&P MidCap 400	1,901.33	-13.20	-0.69	1.75	14.33	-5.41

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.61	Euro/Dollar	1.12	0.90
5-Year	1.54	Dollar/Yen	105.66	-0.85
10-Year	1.71	GBP/Dollar	1.21	-0.33
30-Year	2.23	Dollar/Cad	1.33	0.32

Source: FactSet

What Caught Our Eye This Week

The price of gold has been on a roller coaster this year. Since beginning the year around $1,280 per ounce, it rose to nearly $1,350/oz in February and then fell back to $1,265 in May as volatility declined and the stock market hit new highs. Amid increasing uncertainties this week due to U.S.-China trade issue and a slowing global economy, gold hit $1,522 – its highest price since 2013. The growing demand for gold by global central banks, especially those within the emerging markets, has helped drive its price upwards. Emerging market central banks have been steadily diversifying their reserves away from U.S. dollar-denominated holdings and gold provides the characteristics they seek. Gold is a safe haven that is universally accepted. Central banks, led by Russia, bought about $27 billion of gold in 2018; in the first quarter of this year, central banks purchased about $6 billion worth of gold, an increase of 68% compared with the same period a year earlier, according to the World Gold Council. So far, in 2019, nine emerging market central banks have reported an increase in their gold reserves. According to the 2019 Central Bank Gold Reserve Survey, 11% of the developing economy central banks surveyed say they intend to increase their gold reserves over the next 12 months.

Economy

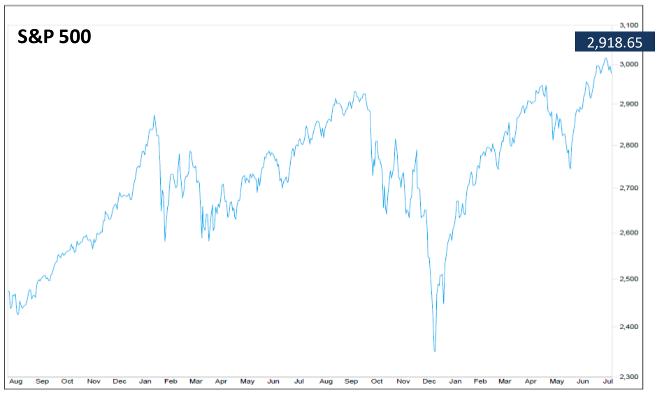
It was an uneventful week for economic data, as the information presented did not move the needle one way or another. On Monday, the ISM non-manufacturing survey disappointed expectations showing a 53.7 for July, which was the lowest level since August 2016. The business activity index and the new orders index are both down significantly since February of this year. The JOLTS report (job openings and labor turnover survey) was released on Tuesday and highlighted 7.3 million job openings as of June 30th. The "quits" rate remained unchanged at 2.3%, while the net employment gain over the last year is a respectable 2.5 million. On Thursday, weekly jobless claims decline by 8,000 to 209,000 during the week ending August 3rd. The four-week moving average is now at 212,000. The producer price index data was released on Friday and displayed a modest increase of 0.2% in July, matching consensus expectations. The "core" PPI was down 0.1% during the month, and is now up 2.1% year-over-year.

Fixed Income/Credit Market

U.S. investment grade (IG) and high yield (HY) credit spreads have narrowed year-to-date (YTD) which has led to outsized returns for investors. Since the beginning of the year, IG 5-year AA, A, BBB-rated composite spreads have decreased 23, 23.9, and 41 basis points (bps), respectively. Even more pronounced is the decrease in HY credit spreads which have lowered 101.5 and 147.3 bps at the 5-year BB and B-rated composites. The Bloomberg Barclay's investment grade corporate bond index has returned 12.09% YTD, while the high yield index has provided investors with a total return of 9.86%. The recent underperformance of the HY index versus the IG index can be attributed to junk bonds getting caught in the crossfire of the U.S.-China trade war. According to Bloomberg, the highest quality speculative grade bonds have reached their weakest level relative to higher grade bonds since 2016. Investors are concerned the trade tensions with China will ultimately erode corporate profits which would lead to an increase in default rates.

Equities

Ongoing concerns over the U.S.-China trade talks, in combination with the yuan dropping to its lowest level since 2008, sparked volatile market conditions that resonated throughout the week. On Monday, the Chinese yuan dipped below the psychologically sensitive exchange rate of 7-yuan-per-U.S. dollar. Investors, fearful that the dip was a harbinger for an impending currency war, flocked to Treasuries. This ultimately led the S&P 500 and Dow Index to post their largest single-day drops of 2019. Markets stabilized on Tuesday after steps were taken by Chinese officials to shore up the yuan and offer reassurances that its currency would not be significantly weakened by further initiatives; however, equities on Wednesday saw mixed to down results as the central banks of Thailand, New Zealand, and India lowered their benchmark interest rates in response to a slowing global economy. Thursday's trading finished strong with all sectors rallying due to a relatively quiet day on the U.S.-China front. For Friday, the Dow was down 0.34% while the S&P 500 and Nasdaq were down 0.66% and 1.00%, respectively. Real estate was the week's top-performer up 1.78%, while energy trailed the rest of the sectors, down 2.14%.



Our View

Volatility returned to financial markets this past week as investors grappled with the potential deleterious impact of the escalating trade war between the world's two largest economies. The U.S. and China trade dispute comes at a period of economic uncertainty. The global economy has slowed over the last twelve months, partially related to a deterioration of global trade, but also related to a general economic malaise. Despite the best efforts on the part of central banks to stimulate global growth, economic activity has been running below long-term average growth rates since the Great Recession. Generally, slower secular global growth that we are experiencing today is the outcome of factors that have been at work for three or four decades. The key factors: 1) Demographics – falling birth rates and aging populations lead to a smaller labor supply which lowers economic output. 2) Supply Side Issues – heavy regulation and higher taxes lead to lower capital investment and capital formation. 3) Fiscal Deficits – as debt levels rise, the opportunity for additional fiscal stimulus diminishes. Although the factors that are pressuring secular global growth are in every developed economy, as well as in China, both the U.S. and China have been more resistant to the secular growth slowdown than other countries. The economies in China and U.S. are inherently more dynamic than other major economic blocks, and they do not have the structural challenges facing Japan (surplus savings) and Europe (common currency). Another positive aspect for the U.S. and China is that the PBOC and the Fed are both in a stronger position to use monetary tools to provide economic support. Assessing many possible outcomes of the trade war is difficult, but the odds still favor that the two largest economies will avoid a recession in the near term.

COMING UP NEXT WEEK		Est.
08/15 Retail Sales SA M/M	(Jul)	0.20%
08/15 Industrial Production SA M/M	(Jul)	0.20%
08/19 Michigan Sentiment NSAA (Preliminary)	(Aug)	98.4

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