Peapack Private Wealth Management

June 21, 2019

As of 06/21/2019 STOCKS	Close	Wk Net Change	Wk % Change	Div Yield	YTD % Change	12 Mos % Change
DJIA	26,719.13	629.52	2.41	2.21	14.54	9.23
S&P 500	2,950.46	63.48	2.20	1.90	17.64	7.25
NASDAQ 100	7,728.78	249.67	3.34	1.03	22.10	7.08
S&P MidCap 400	1,928.11	28.19	1.48	1.72	15.94	-2.98
Russell 2000	1,549.63	27.13	1.78	1.51	14.91	-8.25

TREASURIES	Yield	FOREX	Price	Wk %Change
2-Year	1.77	Euro/Dollar	1.14	1.38
5-Year	1.80	Dollar/Yen	107.30	-1.18
10-Year	2.06	Sterling/Dollar	1.27	1.16
30-Year	2.59	Dollar/Cad	1.32	-1.45

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

Facebook unveiled details of its plan to launch a new digital currency called Libra. The stable electronic currency will be backed by a basket of global currencies, government securities and other investments, and it will be powered by blockchain technology – a very powerful digital ledger system. Libra is intended to be used by mainstream consumers or those who do not have access to traditional banking systems (1.7 billion adults worldwide) anywhere on the planet. Libra will be used to pay for retail or commercial purchases, to pay bills, or to transfer money – something that Bitcoin is ill-equipped to handle. The decentralized system will reduce costs considerably. Libra will be transacted through Facebook's WhatsApp and Messenger platforms or through a separate application that Facebook will offer its 2.7 billion family of users. The company will conduct background checks on customers who use its digital wallet service. Facebook has also organized a consortium of 28 founding partners of the Libra Association, a Geneva-based not-for-profit organization that will administer the digital currency. The partners include companies such as Mastercard, Visa, PayPal, eBay, Vodafone, Spotify, Uber, and venture capital firm Andreessen Horowitz, to name a few. Facebook hopes that the Libra Project will have 100 partners before its expected launch in the first half of 2020. Soon after the launch, the company plans to relinquish its leadership role and allow each partner to have equal authority in establishing Libra policies and overseeing the currency.

Economy

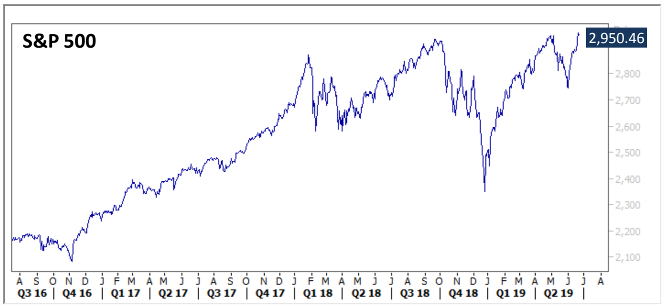
On Monday, the Empire State Manufacturing Survey General Business Conditions Index fell 26 points to -8.6 for the month of June. This came in well below expectations of +11, and it is the largest monthly decline on record. Housing starts declined 0.9% in May to a 1.269 million annual rate. This came in above expectations of 1.239 million, and housing starts are now down 4.7% year-over-year. The decrease for the month of May was entirely due to single-family starts. Over the past year, single-family starts are down 12.5% while multi-unit starts are up 13.7%. In other news this week, the Markit U.S. Manufacturing PMI declined from 50.5 in May to 50.1 in June and came in below expectations of 50.5. This is the lowest reading since September 2009, and the key factors weighing on the index were weaker rates of production growth and staff hiring. The Markit U.S. Services PMI also came in below expectations dropping from 50.9 in May to 50.7 in June. This is the slowest growth of service output since March 2016.

Fixed Income/Credit Market

The FOMC statement from Wednesday's Fed meeting was extremely dovish, however, the committee left the Fed funds rate unchanged (2.25 – 2.50). The Fed confirmed that risks to its outlook have increased and further deterioration to economic conditions could lead to future rate cuts. Week-over-week, U.S. Treasury yields have decreased across the curve anywhere from 0.2 basis points (bps) at the 30-year tenor to 13.1 bps at the 6-month tenor. The 10-year Treasury decreased 2.5 bps on the week and at times has traded below 2.00% since Wednesday afternoon. Adding to the downward pressure on U.S. Treasury yields are pending U.S.-China trade relations, tensions with Iran, and demand from investors using Treasuries to maintain duration targets. As the flight-to-quality trade has taken shape, investors have continued piling cash into high yield assets which has compressed option-adjusted spreads (OAS) roughly 40 bps to +354 bps on the week according to the Bloomberg Barclays High Yield Index.

Equities

Stocks continued to rally and posted a third consecutive week of gains with the S&P 500 reaching all-time highs. The index has returned over 7% in the month of June. The risk on trade was primarily driven by dovish statements from the European Central Bank (ECB) and Federal Reserve. ECB President Mario Draghi announced that the central bank will provide more stimulus if the economic outlook does not improve, and the FOMC left rates unchanged but said it will act as appropriate to maintain the economic expansion. Equities were also boosted by a statement from U.S. President Trump that he and Chinese President Xi will meet next week in Japan at the G20 Summit. He also added that their respective teams will begin trade talks prior to the meeting. All sectors were in the green this week, and the best performer was energy which gained over 5% due to a surge in oil prices.



Our View

Back in June of 2009 the U.S. economy officially began to heal from the devastation of the financial crisis in large part due to extraordinarily accommodative and innovative monetary policy. If the expansion continues into July, which appears highly probable, it will mark the longest economic growth cycle since records began back in 1854. While the length of the current economic expansion is impressive its aggregate growth has been subdued. Moreover, total GDP growth during the current expansion is 22%, which is approximately half of the growth experienced during the first 39 quarters of the expansion from 1991 to 2000. A major reason for the anemic economic growth since the financial crisis has to do with consumer deleveraging. Household debt to GDP peaked in the third quarter of 2008 at 98% and has declined to 75% by the end of 2018. Since consumption is roughly 70% of GDP, consumer deleveraging has weighed on economic growth. An additional headwind to this expansion's GDP growth has been the lack of robust productivity growth, which has only averaged 1.4% and is 100 basis points lower than the productivity growth experienced during the 1991 to 2001 growth cycle. Even the fiscal stimulus from the 2017 tax reform has had a fleeting impact on economic growth as the nearly 3.0% growth in 2018 is predicted to gravitate towards 2.1% in 2019 according to the median estimate of the FOMC. On a different note, the most evident threat to the current expansion is the escalation of trade tensions between the U.S. and China, which is disrupting global supply chains, weighing on business sentiment, negatively impacting global manufacturing and will ultimately hurt aggregate corporate earnings. Prior economic cycles have often been cut short due to an overly aggressive Fed; however, the Fed is closely monitoring incoming economic data and will look to cut rates in order to keep the expansion moving forward.

COMING UP NEXT WEEK		Est.
06/25 Consumer Confidence	(Jun)	131.1
06/25 New Home Sales – Units	(May)	0.680M
06/26 Durable Goods	(May)	0.0%
06/28 Consumption, Adjusted MM	(May)	0.4%
06/28 Chicago PMI	(Jun)	53.8
06/28 U Mich Sentiment Final	(Jun)	98.0

For more information about our solutions: http://peapackprivate.com