Peapack Private Wealth Management

The Weekly
Economic & Market Recap

Peapack Private Wealth Management

April 12, 2019

As of 04/12/2019		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	26,412.30	-12.69	-0.05	2.17	13.22	7.88
S&P 500	2,907.41	14.67	0.51	1.90	15.95	9.11
NASDAQ 100	7,628.15	49.31	0.65	1.02	20.51	14.60
S&P MidCap 400	1,965.42	16.51	0.85	1.64	18.18	3.99
Russell 2000	1,584.80	2.24	0.14	1.46	17.52	1.76

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	2.39	Euro/Dollar	1.13	0.74
5-Year	2.38	Dollar/Yen	112.02	0.25
10-Year	2.57	Sterling/Dollar	1.31	0.31
30-Year	2.98	Dollar/Cad	1.33	-0.53

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

The level of bipartisan outrage over rising drug prices suggests that legislative and regulatory actions will most likely happen and should have a positive impact on consumers. The Department of Health and Human Services' (HHS) proposed regulations would replace the rebate system with upfront discounts for patients. Last month, pharmaceutical executives were in Washington and endorsed the overhaul to the rebate system. A world without rebates would force drug manufacturers to be competitive on net price and encourage discounts. The rebates are negotiated by the pharmacy benefit managers (PBMs) who have been contracted by the managed care companies (third party payer/health plan). This week, the PBM executives were in Washington to talk with the Senate Finance Committee about how they operate. Afterwards, Senators Grassley and Wyden asked the (HHS) Office of Inspector General to investigate PBM practices regarding spread pricing – where a PBM charges an insurer more for a drug than the pharmacy paid and profits from the difference. There is no quick fix to lower the cost of prescription drugs, but everyone seems to agree that transparency has taken center stage.

Economy

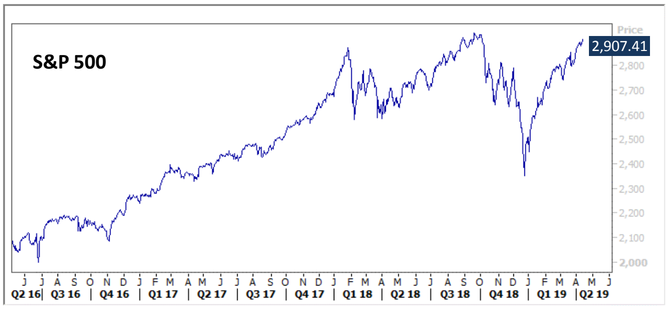
This week the economic data centered around inflation statistics with the release of the producer price index and the consumer price index. On Wednesday, the headline CPI figure matched expectations with an increase of 0.4% in March. Over the past 12 months, this metric has increased by 1.9%. The "core" CPI, which excludes food and energy prices, advanced by 0.1% and is now up 2.0% year-over-year. Energy prices increased by 3.5% and food prices moved higher for the fifth consecutive month gaining 0.3%. The producer price index was reported on Thursday and exceeded consensus estimates, increasing by 0.6% in March. The "core" PPI advanced by 0.3% and is now up 2.4% year-over-year. Reviewing the 12-month trend, core prices continue to moderate. Finally on Thursday weekly jobless claims declined by 8,000 to 196,000 during the week ending April 6th. The four-week moving average is now at 207,000 and initial jobless claims have decreased for four straight weeks.

Fixed Income/Credit Market

On Tuesday, yield hungry investors came out in droves with over $100B in demand for the Saudi Aramco (A1/A+) $12B debt offering issued across five tenors. The $2B 5-year tranche had an initial price talk spread of 95 basis points (bps) above the 5-year U.S. Treasury (UST) but ultimately priced +75 bps with the entire offering being more than 10 times oversubscribed. Despite the spread above the 5-year UST tightening 20 bps, the deal still came at a concession to where 5-year A-rated composite spreads closed on Monday at 60.8 bps. Year-to-date (YTD) there has been approximately $346.7B of investment-grade (IG) corporate debt issuance; however, the added supply has not helped cheapen the sector as strong demand has put downward pressure on credit spreads. According to the Bloomberg Barclays U.S. Aggregate Corporate Bond Index, IG option-adjusted spreads (OAS) have narrowed 41 bps to 112 bps YTD. On the week, UST Note yields increased as much as 7.2 bps at the 5-year tenor. The 10-year UST closed the week at 2.56%, an increase of 6.5 bps.

Equities

The equity indexes approached all-time highs this week as investors were keenly focused on the start of Q1 2019 corporate earnings season. The S&P 500 posted eight consecutive days of gains, its longest stretch since October 2017, before dropping on Tuesday. News that the Trump administration is considering tariffs on $11 billion of imports from the European Union added to investor concern over slowing global economic growth. Stocks rallied on Friday helping erase the week's losses after corporate results from a bellwether of the banking sector, JPMorgan Chase & Co., produced better than expected numbers in Q1. Risk-on sentiment was further bolstered by a $33 billion merger between Chevron Corp. and Anadarko Petroleum and a strong rally in shares of Walt Disney & Co. after releasing details on a video-streaming offering. The S&P 500 gained 0.51% on the week and closed above the much-watched 2900 level for the first time since October 2018. Investors will continue to pay close attention to corporate earnings reports in the coming weeks as they may prove to be a catalyst that pushes equities to all-time highs.



Our View

Slowing global growth is a key risk that we are currently monitoring. This week, the International Monetary Fund (IMF) reduced its forecast for 2019 global GDP growth from 3.5% down to 3.3%, which is the lowest projection since 2009. A critical area of concern for global growth is Europe and the IMF slashed its 2019 European growth projection down 30 basis points over the past three months to 1.3%. Some of the major contributors to Europe's slowdown include aging demographics, decelerating global trade, Brexit uncertainty, Italy's troublesome fiscal situation, the threat of escalating trade tensions with the U.S. and a contracting manufacturing sector. The European Central Bank (ECB) met this week and acknowledged the precarious economic situation that Europe faces and confirmed that interest rates will remain on hold through at least 2019 and its balance sheet runoff will continue to be reinvested for an extended period. Moreover, the ECB President, Mario Draghi, mentioned the first line of defense to combat the slowdown will be a long-term loan plan, which will start in September. The terms of the plan have not been decided, but according to economists surveyed by Bloomberg, the lowest interest rate could reside below the ECB's benchmark, which would allow certain lenders to be paid to access funding. ECB officials are also calling on governments to utilize fiscal stimulus to help generate economic growth. Additionally, it was noted that ECB officials will examine the side effects of negative interest rates on bank profitability and whether it hinders lending. The headwinds facing Europe are substantial at the current juncture, but a near-term key to a potential growth rebound exists in China as it is a major destination for Europe's exports. Thanks to expansionary fiscal and monetary policy, the latest economic figures out of China show some stabilization and if they persist it could partially alleviate European growth fears.

COMING UP NEXT WEEK		Est.
04/16 Industrial Production MM	(Mar)	0.3%
04/17 International Trade #	(Feb)	-53.5B
04/18 Retail Sales	(Mar)	0.8%
04/19 Housing Starts Number	(Mar)	1.240M

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