The Weekly
Economic & Market Recap

Peapack Private Wealth Management

October 25, 2019

10/25/2019		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	26,958.06	187.86	0.70	2.29	15.56	9.66
S&P 500	3,022.55	36.35	1.22	1.90	20.57	13.80
NASDAQ	8,243.12	153.58	1.90	1.01	24.23	15.96
S&P MidCap 400	1,959.22	22.46	1.16	1.75	17.81	9.51

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.62	Euro/Dollar	1.11	-0.44
5-Year	1.62	Dollar/Yen	108.58	0.06
10-Year	1.80	GBP/Dollar	1.28	-0.50
30-Year	2.29	Dollar/Cad	1.31	-0.52

Source: FactSet

What Caught Our Eye This Week

Earlier this month, UPS' Flight Forward division and Alphabet's Wing Aviation were the first two companies to receive Part 135 Certificates from the Federal Aviation Administration (FAA), although their certificates differ. There are multiple levels of a Part 135 clearance and UPS was given a more robust Standard Part 135 certificate. This allows UPS' Flight Forward division to fly multiple drones at one time, to fly beyond visual line of sight, to fly at night, and to generate revenue from flights. This week, UPS announced it would partner with CVS to deliver prescription drugs. Meanwhile, FedEx and Walgreens are testing deliveries using Wing Aviation. Both UPS Flight Forward and Wing are focusing their business on health care to increase public support for drones. There are significant regulatory hurdles before drone deliveries become mainstream. The FAA recognizes that there needs to be a regulatory framework for drone operations to become routine. The priority will be remote identification which will allow the drones and their operators to be easily identified. The FAA plans to publish rules for Remote ID before the end of the year. Experts say wide-scale drone delivery operations will take years to build out. The FAA forecasts the commercial small drone fleet to nearly triple from 277,386 in 2018 to 835,211 in 2023, an average annual growth rate of 24.7%.

Economy

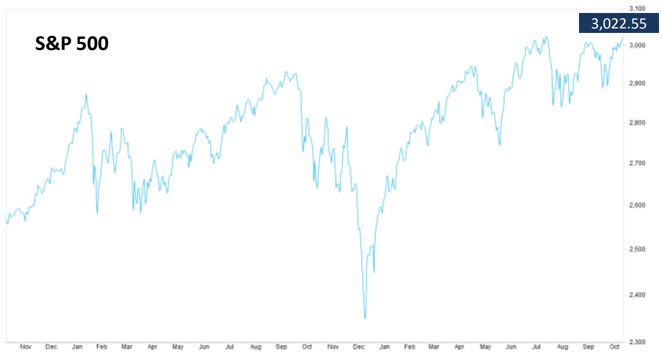
The most anticipated report this week was the durable goods report, which was released on Thursday. Overall, new orders for durable goods decreased by 1.1%, and are now down 5.4% year-over-year. Core capital goods orders declined by 0.5% and core capital goods shipments dropped by 0.7%. Over the most recent three months, "core" orders are down 4.5% (seasonally adjusted annual rate) and "core" shipments are down 5.5%. Core capital goods orders are one of the best leading indicators for the U.S. economy, and core capital goods shipments are used by the government to calculate business investments for GDP purposes. In other news this week, existing home sales data disappointed posting a 2.2% decline to 5.38 million units at an annual rate in September. Despite this modest drop, we are expecting real residential investment to be up 5% in Q3, which would be the first quarterly increase since Q4 2017. Finally, new home sales figures were released on Thursday and showed a decline of 0.7% to 701,000 units in September. Similar to existing home sales, new home sales made a positive overall contribution to Q3 housing data.

Fixed Income/Credit Market

On Thursday, the European Central Bank (ECB) left monetary policy rates unchanged ahead of next Wednesday's FOMC meeting. According to Bloomberg, the implied probability of a 25 basis point rate cut is currently 90.4%. The futures implied rate for November is 1.62%, indicating that market participants are pricing in another rate cut in the Fed funds rate. Since the Fed began cutting the overnight rate on July 31st, interest rates across the U.S. Treasury yield curve have decreased. However, yields at the front-end have fallen at a faster pace than the back-end which has helped steepen the curve. While the shape of the curve is far from normal historically, it is a welcome sign that key areas of the curve are no longer inverted. On Friday, the spread between the 3-month and 10-year tenors closed at 13.1 basis points (bps) which is an increase of 18.1 bps since July 31st. The 3-month, 10-year spread hit a 10-year low as recently as 8/28/19 at roughly -50 bps, well below the 10-year average of 188.9 bps.

Equities

Domestic equities posted a strong gain for the week as investors focused on earnings from over 130 companies. Positive comments on trade from U.S. and Chinese officials and corporate earnings releases all helped drive equity markets higher. As of October 25th, 201 companies have reported earnings for the past quarter. Reported revenue has surpassed expectations by 1.3% and earnings have surprised to the upside by 4.4%. Revenue grew by 3.7% year-over-year while earnings reported a slight decline of 0.5% year-over-year. The best performing sector this week was energy gaining 4.3%. Crude Oil WTI appreciated 5.5% following a surprise drop in U.S. inventories and expectations for market-supporting action by OPEC to offset concerns over demand expectations. The worst performing sector was real estate declining 1.1%. The VIX closed at 12.65 as markets approach all-time highs.



Our View

Investors' attention next week will be on the Federal Reserve rate decision and Fed chairman Jerome Powell's comments following its October meeting. Market expectations are very high that the Fed will cut the Fed funds target range from 1.75%-2.00% to 1.50% to 1.75%. Some pundits have speculated that the next rate cut, whether it happens in October or December, will be the last "insurance cut," thus completing the mid-cycle correction. The number of future interest rate cuts depends on your view regarding the cause of the global slowdown, and if you believe the softness to be shallow and temporary. The European Central Bank completed its October meeting this week, after which Mario Draghi offered a gloomy assessment of the euro-area economy. Draghi said that weak growth was delaying the pass-through of higher wages to inflation. He also indicated that the labor market in Europe has lost some strength and noted that overall risks are "on the downside." The ECB reaffirmed its intention to implement a new round of monetary stimulus that was announced a few weeks ago. The highly controversial stimulus package that has divided the ECB included lowering the reference rate to negative 0.5% and restarting bond-buying by purchasing €20 billion per month. There have been reports in the WSJ that at least seven of the council's 25 members objected to restarting bond buying, and the ECB's own staff monetary policy committee opposed the move. Senior leadership at the ECB believes the softness may not be shallow and temporary. The manufacturing sector has contracted for nine consecutive months according to PMI data, while Germany's exports remain in steep decline. The euro-area economy appears to be approaching a recession and a combination of fiscal and monetary policies will be needed to reignite economic growth.

COMING UP NEXT WEEK		**Est.**
10/29 Consumer Confidence	(Oct)	127.0
10/30 Fed Funds Target Upper Bound	-	1.75%R
10/31 Personal Income SA M/M	(Sep)	0.30%
11/01 Nonfarm Payrolls SA	(Oct)	90.0K
11/01 ISM Manufacturing SA	(Oct)	49.0

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