The Weekly
Economic & Market Recap

Peapack Private Wealth Management

February 7, 2020

2/7/2020		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	29,102.51	846.48	3.00	2.19	1.98	15.62
S&P 500	3,327.71	102.19	3.17	1.80	3.00	22.97
NASDAQ	9,520.51	369.58	4.04	0.91	6.11	30.62
S&P MidCap 400	2,049.30	42.08	2.10	1.74	-0.67	10.51

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.39	Euro/Dollar	1.10	-1.06
5-Year	1.40	Dollar/Yen	109.78	1.28
10-Year	1.58	GBP/Dollar	1.29	-1.85
30-Year	2.04	Dollar/Cad	1.33	0.60

Source: Bloomberg/FactSet

What Caught Our Eye This Week

Since the Supreme Court reversed a decade's long federal ban in June 2018, 20 states and the District of Columbia have legalized sports betting. Some states limit betting to casinos while others allow online wagering. ESPN reports 24 more states are moving towards legalization. States see an opportunity as U.S. illegal sports betting is estimated to be worth $150 billion. Though it is still an emerging industry, the American Gaming Association reports legal sports betting has already seen more than $17 billion in wagers and $1.2 billion in revenue since being legalized. Industry experts predict online/mobile betting is the future of the industry. In New Jersey, 85% of wagering was placed online or from mobile devices. Growth prospects depend on the four largest sates, CA, TX, FL, and NY legalizing online sports gambling. Despite uncertain timing of additional states' legalization efforts and ultimate profitability, Wall Street seems excited about the growth prospects. The two leaders in online sports betting are DraftKings and FanDuel (owned by UK Flutter Entertainment: FLTR). Currently unprofitable, DraftKings is going public in an unusual way. The company is part of a three-way merger with SB Tech and Diamond Eagle Acquisition Corp which currently trades under the ticker DEAC. When the deal closes in the first half of 2020, Diamond Eagle will change its name to DraftKings and remain listed but under a new ticker symbol.

Economy

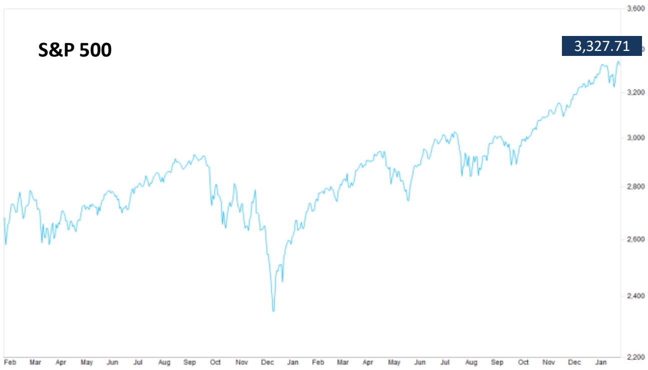
The most anticipated report this week was the nonfarm payroll report, which was released on Friday. This report showed payrolls increasing by 225,000 in January, which was significantly more than consensus estimates (161,500). The unemployment rate was little changed at 3.6%, and the U-6 measure of unemployment increased to 6.9%. The labor force participation rate increased to 63.4%, and there were positive revisions of 7,000 jobs made to the November and December reports. Average hourly earnings rose by 7 cents to $28.44, and the year-over-year gain increased to 3.1%. Examining the different employment sectors, construction added 44,000 jobs, healthcare gained 36,000, and leisure and hospitality added 36,000. In other news this week, the ISM manufacturing survey increased to 50.9 in January, and the new orders index rose to 52.0 from 47.6. This survey also showed 8/18 industries growing, 8 contracting, and 2 reported no change. On Wednesday, the ISM nonmanufacturing survey posted a gain to 55.5 in January, which is a five-month high. Overall, 12 industries reported growth and 6 showed decline.

Fixed Income/Credit Market

10-year municipal debt backed by the state of New Jersey is currently trading at approximately 1.60% which equates to 36.4 basis points (bps) above the Bloomberg 10-year AAA muni index. Year-to-date, 10-year NJ municipal bond yields have averaged roughly 1.69% and peaked at 1.97% on January 2nd. The yield hit a year-to-date low on January 30th due to increased demand for high-quality tax-sheltered assets as longer-dated U.S. Treasury (UST) rates have decreased as much as 34.4 bps. Furthermore, as UST yields are once again close to historic lows, taxable municipal issuance has put increased downward pressure on tax-exempt yields. In 2019, taxable municipal bond issuance made up 15% of issuance which was two times the amount of taxable issuance in 2018. The rate of taxable muni issuance in 2020 is expected to increase an additional 5% to a total 20% of the overall municipal bond market.

Equities

After back-to-back weekly declines of more than 1% for the S&P 500, domestic equities bounced back and posted strong gains this week. There was no specific catalyst that sparked the rally, but many think investors saw the previous weeks' selloff as overdone. There has been an increase in confidence that the coronavirus outbreak will be contained. There was also some favorable economic data released this week. For the first time since last summer, a measurement of manufacturing activity moved into expansion territory in January. Furthermore, strong employment data helped continue the narrative of a healthy U.S. consumer. The better than forecast data suggests that the U.S. economy is possibly stronger than many expected. All three major domestic equity indexes closed at all-time highs on Thursday, but they gave back some of the week's gains on Friday. Information technology had the strongest week increasing 4.6%, and the only sector to post a decline was utilities at -50 bps.



Our View

Global economic growth, which increased last year at the weakest pace since 2009, is going to again be pressured by the duration and severity of the coronavirus. With several Chinese provinces extending the Lunar New Year holiday to help contain the spread of the coronavirus, roughly two-thirds of China's economy remained closed this week. Confirmed cases escalated past 31,000 and some fear that the figure is much higher as hard-hit provinces like Wuhan and Hubei are overwhelmed and lack a sufficient supply of tests. The Chinese government is taking the threat extremely seriously and has instituted a travel ban that encompasses over 50 million people. China's central bank (PBOC) has also taken action by flooding banks with short-term liquidity and reducing the interest rate charged for money. It is also believed that the PBOC will decrease the loan prime rate and reduce the reserve requirement ratio for banks in the near future. At this point, the impact to China's first quarter GDP is difficult to forecast; however, Bloomberg Economics predicts that growth could slow to 4.5%. If the steps taken thus far to contain the virus prove successful, then the loss of global GDP growth should be limited, which is what global equity markets are currently suggesting. On a different note, a long-term theme that has been weighing on global GDP pertains to the slowdown in population growth. Here in the U.S., the population grew by just 50 basis points annualized through July of 2019. The previously mentioned figure is estimated to be the slowest rate of growth over the past 100 years. There are extensive implications to a decline in population growth due to the fact that it tends to limit overall demand as well as the ability to satisfy demand. With U.S. GDP growth hovering just above 2% as of the fourth quarter of 2019, maintaining that growth rate in the face of declining population growth will undoubtedly be an uphill battle.

COMING UP NEXT WEEK		Est.
02/13 CPI SA M/M	(Jan)	0.20%
02/14 Retail Sales SA M/M	(Jan)	0.30%
02/14 Industrial Production SA M/M	(Jan)	-0.30%

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