The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Peapack Private Wealth Management

January 18, 2019

As of 01/18/2019		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	24,706.35	710.40	2.96	2.30	5.91	-5.04
S&P 500	2,670.71	74.45	2.87	2.03	6.36	-4.71
NASDAQ 100	6,784.61	183.21	2.78	1.12	7.18	-0.39
S&P MidCap 400	1,817.25	53.63	3.04	1.75	9.27	-7.20
Russell 2000	1,482.50	35.12	2.43	1.53	9.93	-5.98

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	2.61	Euro/Dollar	1.14	-0.92
5-Year	2.62	Dollar/Yen	109.74	1.09
10-Year	2.78	Sterling/Dollar	1.29	0.20
30-Year	3.10	Dollar/Cad	1.33	-0.05

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

From mobile medical apps and fitness trackers to software that supports the clinical decisions made every day by doctors, digital technology has been driving a revolution in health care. Venture capital funding for digital health companies reached $9.5 billion in 2018, up more than 30% from the previous year. More than 60% of publicly-traded digital health stocks underperformed the S&P 500 in 2018. One reason could be that the large tech or internet companies, i.e. Apple, IBM, Microsoft and Google are developing a presence in the health care sector. Apple has been quietly expanding into the health care space and this week announced a research study with Johnson & Johnson to help improve outcomes of a cardiac condition called AFib. These companies are looking to help health care providers use devices and real-time data from patients to monitor and proactively manage patient's health. The main challenges that remain are cybersecurity and interoperability. Interoperability allows health information systems to work together across organizational boundaries leading to more effective health care delivery and better patient outcomes. Questions over privacy and worries about cyber-security remain the major impediments to the industry's ability to connect patients, providers, and applications with data and electronic health records.

Economy

Retail sales, housing starts and business inventories reports were postponed due to the partial government shutdown. The University of Michigan consumer sentiment index declined to 90.7 in the preliminary January report, possibly related to the government shutdown. This was the lowest figure reported since October of 2016. Earlier in the week, the producer price index came in below expectations with a drop of 0.2% in December. Energy prices were the main culprit, decreasing by 5.4%. The ex-food and energy core measure was also soft, declining 0.1% in December. Year-over-year the core PPI is now up 2.5%. Industrial production figures were reported on Friday and surpassed expectations rising by 0.3% in December. Manufacturing output increased by 1.1% with auto production up 4.8%. Auto production is up 7.8% versus a year ago and the production of high-tech equipment has gained 5.6%. Finally, weekly jobless claims decrease by 3,000 to 213,000 during the week ending January 12th. The four-week moving average is now at 221,000, and overall claims have been below 300,000 for 203 consecutive weeks.

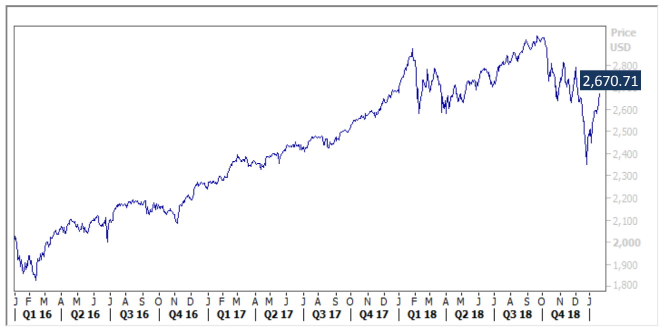
Fixed Income/Credit Market

According to the Bloomberg Barclays Municipal Bond Index, NJ tax-exempt bonds provided investors with a total return of 2.14% in 2018 – a strong performance relative to other fixed income sectors. So far in 2019, the outlook for municipal bonds continues to be promising given the flatness of the U.S. Treasury curve, geopolitical risks, trade tensions and a dearth of municipal bond supply. Year-to-date the Index has provided a total return of 55 basis points (bps) in just three weeks of trading. The spread between the 2-yr and 30-yr U.S. Treasuries is currently just 49.4 bps whereas the spread between the 2-yr and 30-yr NJ tax-exempt general obligation bonds is 190.5 bps. The steepness of the NJ municipal bond curve affords investors an opportunity to be compensated for adding duration risk. New Jersey's visible 30-day supply is $560.4MM while the amount of debt expected to retire is $947.1MM, a net supply of negative $386.7MM which should drive positive price performance.

Equities

Equities advanced for the third week in a row, rising almost 3% and off to their strongest start in 32 years. The advance was driven by the combination of positive earnings from several banks and financial services companies, optimism regarding progress in trade talks with China, and a perceived pause in interest rate increases by the Federal Reserve. On balance, 4Q revenues and earnings reports were mixed for the week. Investors have shrugged off concerns of slowing global economic growth, geopolitics, and interest rates. This was evidenced by the CBOE Market Volatility Index (VIX) closing the week at 17.8, slightly elevated versus its 5-year average of 14.8 and 50% below its Christmas Eve levels. The strongest sector performance this week came from the Financials +4.34% and the weakest was in the Utilities space -0.30%.

S&P 500



Our View

Back in 1973, the U.K. joined the European Economic Community (the EEC was eventually absorbed by the EU) to become part of a free-trade zone which helped forge a global political force. As time progressed, people of the U.K. began to believe that the independence and freedom they had given up by being a member of the EU started to outweigh the benefits. The main issue of concern that was used to increase public support to leave the EU related to control over immigration. The movement gained so much momentum that a referendum was held in June of 2016 where the British people voted 52% to 48% to exit the EU. The U.K.'s decision sent its currency tumbling, which produced financial shockwaves around the globe and caused the Bank of England to initiate additional accommodative monetary policies to assist with the uncertainties which resided ahead. The U.K. Prime Minister at the time, David Cameron, resigned and left the herculean task of negotiating Brexit up to Theresa May. This past Tuesday, the Brexit plan that May had been devising for almost two years was defeated by a margin of 230 votes, which was the biggest British legislative defeat in over a century. On Wednesday, May survived a no-confidence vote and must work diligently with members of Parliament and the EU to devise another Brexit plan. At this juncture, the road ahead is far from certain. One of the potential outcomes is a no deal Brexit, which would cause extreme economic hardship and possibly a recession. We feel that a no deal Brexit is an improbable outcome and believe that if an amenable agreement cannot be reached, then the current deadline of March 29th will be extended until both sides come to an agreement or another referendum is initiated.

COMING UP NEXT WEEK		Est.
01/22 Existing Home Sales	(Dec)	5.28M
01/24 Markit Mfg PMI Flash	(Jan)	53.4
01/25 Durable Goods	(Dec)	2.3%
01/25 Durables Ex-Transport	(Dec)	0.3%
01/25 New Home Sales – Units	(Dec)	0.567M

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