The Weekly
Economic & Market Recap

Peapack Private Wealth Management

Peapack Private Wealth Management | August 30, 2019

08/30/2019		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	26,403.28	774.38	3.02	2.28	13.19	1.07
S&P 500	2,926.46	79.35	2.79	1.89	16.74	0.43
NASDAQ	7,962.88	211.12	2.72	1.20	20.01	-1.81
S&P MidCap 400	1,881.20	44.65	2.43	1.65	13.12	-8.24

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.53	Euro/Dollar	1.10	-0.86
5-Year	1.41	Dollar/Yen	106.14	0.18
10-Year	1.56	GBP/Dollar	1.22	-0.78
30-Year	2.04	Dollar/Cad	1.33	0.13

Source: FactSet

What Caught Our Eye This Week

On Wednesday, Boris Johnson, the new UK Prime Minister, announced that he would suspend Parliament. Hours later, the Queen approved his request. To many Americans, this sounds like an abrogation of democracy. In the UK, this legal move is called prorogation, and it is used often. Prorogation is requested to end each legislative session. It allows the prime minister and his or her government an interluding period to develop a list of legislative priorities for the upcoming parliamentarian session. The new session is opened with a ceremony, and it is begun with the "queen's speech," an address written by the ruling government that outlines the legislative priorities going forward. What has been controversial about this prorogation is its timing and its length. By suspending Parliament in early September, it reduces the time that the legislators have to force a vote to postpone Brexit, scheduled for October 31st. The time to address Brexit has now been shortened from about five weeks to less than three weeks. Furthermore, the suspension of Parliament typically lasts about a week. The Prime Minister requested a period of almost five weeks for the legislative body to remain adjourned. It is Mr. Johnson's intent to leave the European Union on 10/31 with or without a negotiated deal. The health of Great Britain and the outcome of Brexit is important to U.S. investors. The UK represents over 27% of the total stock market capitalization of Europe, making it by far the most important European market for equity investors.

Economy

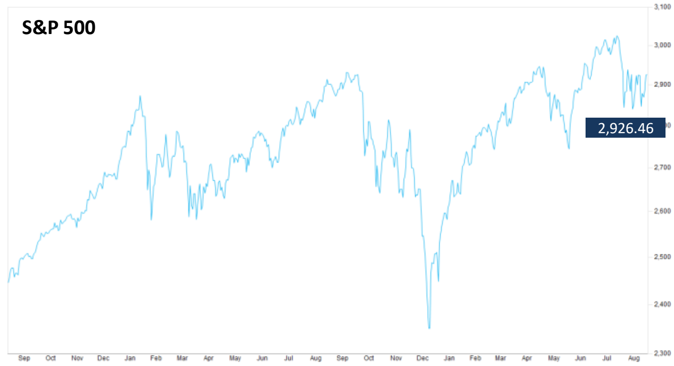
The economic headliner this week was Thursday's report on second quarter real GDP. This was the second look at Q2 GDP and growth was reported at 2.0%. Consumption growth was revised higher to 4.7% and final sales to domestic purchasers was adjusted upwards to 3.6%. On the negative side, nonresidential fixed investment declined by 0.6%, and residential investment dropped by 2.9%. Corporate profits beat expectations posting a 5.3% increase quarter-over-quarter. Corporate profits continue to trend lower as a share of GDP for cyclical reasons. Tight labor market conditions are providing workers with bargaining power to secure a bigger share of GDP incomes. In other news this week, orders for durable goods showed a 2.1% advance in July, which was heavily influenced by a 47.8% increase in civilian aircraft orders. Core capital goods orders increased by 0.4% and core capital goods shipments dropped by 0.7%. 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.

Fixed Income/Credit Market

State and local debt maturing in 10 years is currently yielding approximately 85% of like duration U.S. Treasuries (UST). Over a one-year horizon, the 10-year AAA municipal bond ratio peaked at 88.5% in November 2018 and hit a low of 71.6% in May 2019 which was a 19% decrease. The 10-year ratio has averaged 81.2% over the one-year period but has had several bouts of volatility. After hitting its low in May, the ratio increased 14.5% to 82% of UST on July 3rd. However, just one week later, the ratio dropped 9.5% to 74.2% of the 10-year Treasury. Since July 3rd, the muni to Treasury ratio rose as high as 86% on Tuesday – a 15.9% increase. Despite trading at multiyear lows of 1.27%, 10-year AAA NJ general obligation (GO) bonds still provide local investors relative value versus 10-year AAA corporate bonds. NJ residents in the highest tax brackets receive 2.75% in taxable equivalent yields for 10-year AAA NJ bonds. Meanwhile, 10-year AAA corps yield just 2.12%.

Equities

Equities rallied for the majority of this week as investors aligned their sentiments with President Trump's claims that the U.S.-China trade front is moving in a positive direction. Although no concrete details have been disclosed, Sunday's news stating that China is willing to restart negotiations pushed stocks towards their best levels on Monday. However, on Tuesday, stocks gave up most of their gains in what was a relatively quiet day of trading. General consensus indicates that skepticism towards China's willingness to pursue a resolution, in conjunction with former NY Fed President Dudley's comments, was most likely the reason for the day's dip. Markets rebounded on Wednesday with stocks closing on high notes, despite news highlighting uncertainty surrounding Brexit. The momentum carried over into Thursday thanks to statements from China saying it will not retaliate against the latest tariff increases. The Dow and S&P 500 finished at 26,403.28 and 2,926.46, respectively, with industrials being the top performer and Communications and Financials trailing.



Our View

The financial markets have been trading all year on investor sentiment driven by the potential outcome of the trade war between the U.S. and China, and the anticipated direction of interest rate policy by the Federal Reserve. These two dynamics directly impact the global economy, so they are inexorably intertwined. The rhetoric around the trade war has been unpredictable and has caused much of the volatility we have experienced in markets. Although Fed policy is a moving target, due to the vagaries of economic growth, the objective of Fed policy has always been clear. The Fed sets monetary policy to facilitate its dual mandate of price stability and full employment. An independent Fed that is acting in the best long-term interests of those goals has been a vital component of well-functioning financial markets. Investors depend on a Fed that will take measured action guided by the pursuit of its dual mandate. This past week the former president of the Federal Reserve Bank of New York and vice-chairman of the Federal Open Market Committee, William Dudley, suggested that the Fed should ignore the potential negative economic impact of the trade war in setting policy and should send a clear signal that the Trump administration will own the consequences of the trade war. Mr. Dudley also suggested that the Fed officials should consider how their decisions will affect the political out-come of the 2020 elections when setting rates over the next year. The Fed was quick to distance itself from such an idea, and it was right to do so. Remaining apolitical and non-partisan is critical to the central bank's credibility. Mr. Trump's attacks on Fed Chair Jerome Powell have not been helpful and has only made the Fed's job harder. Unfortunately, Mr. Dudley has piled on and complicated things even more. The Fed should ignore them both.

COMING UP NEXT WEEK		**Est.**
09/03 ISM Manufacturing SA	(Aug)	51.3
09/05 Durable Orders SA M/M (Final)	(Jul)	2.1%
09/05 ISM Non-Manufacturing SA	(Aug)	53.8
09/06 Nonfarm Payrolls SA	(Aug)	150.0K

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