The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Peapack Private Wealth Management

March 1, 2019

As of 03/01/2019		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	26,026.32	-5.49	-0.02	2.22	11.57	5.76
S&P 500	2,803.69	11.02	0.39	1.96	11.84	4.71
NASDAQ 100	7,151.57	60.95	0.86	1.08	12.98	5.94
S&P MidCap 400	1,925.35	-8.37	-0.43	1.68	15.77	3.62
Russell 2000	1,589.64	-0.42	-0.03	1.44	17.88	5.46

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	2.55	Euro/Dollar	1.14	0.25
5-Year	2.56	Dollar/Yen	111.90	1.07
10-Year	2.76	Sterling/Dollar	1.32	1.16
30-Year	3.13	Dollar/Cad	1.33	1.10

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

Investment in cannabis startups hit an all-time high in 2018. As the market for legal marijuana grows, so too do the opportunities for investors. It is no surprise that 2018 was the biggest year ever for venture capitalist financing in the global cannabis industry. Investors committed around $881 million to 139 deals. That is more than double the amount invested in 2017 and more than eight times the total in 2014. A report last year by BDS Analytics and Arcview Market Research estimated that by 2022, the global legal cannabis industry will be valued at $32 billion, a threefold increase in just five years. The US cannabis market is expected to be the largest with a market value of over $23 billion. The report estimates that the annual compound growth rate globally will be 27.5% through this period. Canadian companies have been buying up US marijuana companies (57 businesses were bought in 2018), expanding the CBD side of the industry (products derived from cannabis), and tapping into US capital markets. Currently, US companies cannot list on the stock exchanges because cannabis is illegal on the federal level. The venture capital financing is vital to the continued growth of this burgeoning industry.

Economy

The economic headliner this week was Thursday's report on fourth quarter real GDP. This was the first look at Q4 GDP and it grew at a 2.6% annual rate which was above expectations of 2.2%. If the 2.6% growth rate holds after revisions, then real GDP was up 2.9% in 2018 which is the fastest growth rate since 2015. Overall, the largest positive contribution to Q4 GDP growth was personal consumption. Furthermore, growth in business investment (equipment, structures and intellectual property) was at a 6.2% annual rate in Q4 and was up 7.2% in 2018, the fastest pace since 2011. On Wednesday, new orders for manufactured durable goods showed an increase of 1.2% in December to $254.4 billion which came in as expected. This follows a 1.0% rise in November marking two consecutive months of growth. Personal income and spending data was also released this week. In December, personal income increased 1.0% while personal spending de-creased 0.5%. Expectations for personal income and spending were for +0.4% and -0.3%, respectively. In other news, the ISM manufacturing index fell to 54.2 in February from 56.6 in January which was below expectations of 55.8. A decline in new orders, production, employment and prices all contributed to the index's decline which hit its lowest level since November 2016.

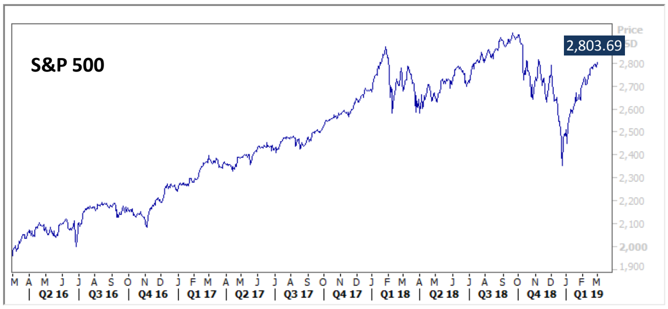
Fixed Income/Credit Market

Week-over-week, the 10-year US Treasury (UST) yield increased 11.1 basis points (bps) to close at 2.77%. The move higher coincided with the 10-year German Bund increasing 8.8 bps, Fed Chair Powell indicating future monetary policy will be data dependent, improved US-China trade negotiations, and 4th quarter GDP beating expectations. Despite the rise in global yields, the move higher has not offset the concession and safety of owning the 10-year UST.

GLOBAL 10-YEAR YIELDS					
		BASIS POINT			BASIS POINT
COUNTRY	RATE	SPREAD vs U.S.	COUNTRY	RATE	SPREAD vs U.S.
U.S.	2.765		Italy	2.729	-3.6
U.K.	1.293	-147.2	Spain	1.192	-157.3
France	0.576	-218.9	Switzerland	-0.285	-305
Germany	0.181	-258.4	Japan	-0.019	-278.4

Equities

Equities' momentum continued Monday following positive developments on US-China trade. Midweek, the market reversed as investors reacted to weak earnings from a major retailer, mixed economic data, and US Trade Representative Robert Lighthizer's caution regarding a trade deal. Despite the release of a stronger than anticipated 4Q'18 GDP figure, investors focused on President Trump's abrupt exit from a meeting with North Korea's President, Kim Jung Un, resulting in no agreements. Equities reversed yet again on Friday following White House economic adviser Larry Kudlow's optimistic outlook on US-China trade saying negotiations between the two countries are "fantastic". Optimism around trade outweighed weakening economic data. The best performing sectors were Information Technology and Communication Services increasing 1.58% and 0.86%, respectively. The worst performing sectors were Materials and Real Estate declining 0.91% and 0.44%, respectively.



Our View

Labor productivity, which is the growth of output per worker hour, has been anemic for over a decade and threatens to lower living standards moving forward if it does not make a noticeable recovery. Over the past 150 years, transformative innovations, such as the internal combustion engine and the telephone, have dramatically enhanced lifestyles, revolutionized societies and increased productivity. However, productivity is currently growing at 1.0% using a 20-quarter moving average, which is well below the average of 2.2% dating back to 1946. One of the main causes of low productivity growth has been the failure of Corporate America to adequately fund its capital investments. Companies have instead elected to buy back shares and boost dividends in lieu of investing in capital expenditures. The Tax Cuts and Jobs Act intends to boost capital expenditures by allowing a 100% deduction of the cost of certain equipment purchased after September 27, 2017. Moreover, the most recent 4-quarter moving average private nonresidential investment figure shows that capital spending by businesses is starting to pick up, which could signify a future rebound in productivity gains. A second reason for current state of low productivity growth is due to the lag effect of certain innovations being adopted into the workforce. Take for example the computer, which debuted in the 1950's but did not become widely utilized in businesses until the 80s and 90s. A technology that has been advancing recently and has the potential to dramatically change society and enhance productivity is machine learning. Machine learning can boost output with less human labor input, which bodes well for the owners of capital but not for the displaced worker who needs to repurpose their skills. It is our belief that productivity will slowly pick up moving forward due to a renewed commitment to investment and the adoption and implementation of promising new technologies.

COMING UP NEXT WEEK		Est.
03/05 ISM N-Mfg PMI	(Feb)	57.2
03/07 Initial Jobless Claims	(2 Mar, w/e)	225k
03/08 Non-Farm Payrolls	(Feb)	185k

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