The Weekly
Economic & Market Recap

PEAPACK PRIVATE
Wealth Management

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September 27, 2019

09/27/2019 STOCKS	Close	Wk Net Change	Wk % Change	Div Yield	YTD % Change	12 Mos % Change
DJIA	26,820.25	-114.82	-0.43	2.29	14.97	1.65
S&P 500	2,961.79	-30.28	-1.01	1.93	18.15	1.92
NASDAQ	7,939.63	-178.05	-2.19	1.05	19.66	-0.64
S&P MidCap 400	1,922.17	-22.47	-1.16	1.79	15.58	-4.47

TREASURIES	Yield	FOREX	Price	Wk %Change
2-Year	1.61	Euro/Dollar	1.09	-0.58
5-Year	1.54	Dollar/Yen	108.16	0.25
10-Year	1.68	GBP/Dollar	1.23	-1.53
30-Year	2.12	Dollar/Cad	1.32	-0.26

Source: FactSet

What Caught Our Eye This Week

On Tuesday, the Speaker of the House of Representatives announced that the House would begin impeachment proceedings. The process of impeachment is very broadly defined in the Constitution, but the definition of what constitutes an impeachable offense is not well specified. The six House committees that had already been investigating President Trump are now being asked to continue their work under the umbrella of impeachment proceedings. Each committee's findings will be brought before the House Judiciary Committee which will vote on whether to draft articles of impeachment (a list of presidential transgressions). It is then up to the full House of Representatives to debate and vote on whether each specific article or the articles collectively are credible. A simple majority House vote will determine whether the President is then impeached – i.e. formally accused of wrongdoing. If the House votes yes, a trial would be conducted in the Senate with the Chief Justice of the Supreme Court presiding. Normally, House democrats would present their case, and the President would have legal defense representation. The Senate would then deliberate behind closed doors and subsequently conduct a public vote which would require 2/3rds of the senators to remove the President from office. Interestingly, the financial markets continue to shrug off the impeachment proceedings and trade on earnings, interest rates and news of the trade talks with China. Given the 53-45 Republican majority in the Senate, the removal of the President is unlikely.

Economy

The most anticipated report this week was the durable goods report, which was released on Friday. Overall, new orders for durable goods increased by 0.2% in August, and are now down 3.0% year-over-year. Core capital goods orders declined by 0.2% and core capital goods shipments increased by 0.4%. 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, we were pleased to see personal income increase by 0.4% and personal consumption advance by 0.1% in August. Over the past 12 months, personal income has gained 4.6% and personal consumption is up 3.7%. On Tuesday, the Conference Board consumer confidence report disappointed investors, dropping from 134.2 in August to 125.1 in September. A component of this index is called the "labor market differential" and it also disappointed, sliding from 38.3 (an expansion high) to 33.2. Finally, on Thursday, the last report on second quarter GDP confirmed GDP growth at 2.0%.

Fixed Income/Credit Market

The U.S. Treasury added $113 billion to its U.S. Treasury Note supply this week with mixed results. The $40B 2-year auction was strong with a bid-to-cover ratio of 2.64 times which was above the previous six auction average of 2.59 times. However, given the drop in U.S. Treasury yields over the past six months, the 2-year auction yield stopped at 1.612% which is 35.1 basis points (bps) lower than the previous six auction average yield. The auction statistics show that the sale of $41B 5-year Notes was not as well received with a bid-to-cover ratio of 2.32 times which was lower than the previous six auction average of 2.38 times. The 5-year went off at 1.60%, 32.2 bps lower than the previous six auction average yield of 1.922%. The $32B 7-year auction was much stronger with a bid-to-cover ratio of 2.49 times which was higher than its 2.37 average for the previous six auctions. However, the drop of 40 bps in yield to 1.633% versus the previous six auction average outpaced the yield decreases in 2Y and 5Y Notes.

Equities

Recent developments within U.S. politics and the U.S.-China trade war sent domestic equities lower for the majority of the week. Stocks opened higher on Tuesday but reversed course on reports that congressional Democrats planned on pursuing impeachment proceedings against President Trump. House Speaker Pelosi announced the inquiry after markets closed. According to FactSet, multiple articles looked at how stocks performed during previous impeachment probes, and the biggest takeaway is that the market will trade based on the strength of the economy, not Washington. Although most of the headlines throughout the week seemed to point to a de-escalation in U.S.-China trade talks, a Bloomberg report triggered a selloff in equities on Friday. According to the report, White House officials are considering limiting U.S. investments in China. The restriction would be meant to protect U.S. investors from excessive risk due to lack of regulatory supervision. All three major indexes finished the week in the red. The only three sectors to post gains on the week were the defensive sectors: consumer staples, real estate and utilities.

Our View

Brexit is little more than a month away and a solution does not seem to be apparent. This week a court ruled that British Prime Minister Boris Johnson illegally suspended the U.K. Parliament and misused his authority. The unprecedented judicial rebuke was a unanimous decision that has put intense political pressure on Johnson. Johnson has promised to press ahead with his plan to leave the E.U. on October 31 with or without a deal. The fractured Parliament has rejected several proposed deals already, and it does not seem to have enough political resolve to coalesce around a workable solution that is palatable to everyone. The ultimate outcome is extremely uncertain, but we would not be surprised to see Brexit delayed again. The Brexit issue is potentially coming to a head at a time when world economic growth is fragile and is being threatened by global trade tensions. The Organization for Economic Cooperation and Development recently downgraded its outlook for world economic growth to the slowest rate since the financial crisis. Recent PMI numbers suggest that the German manufacturing sector is already in recession. The European Central Bank on September 12th cut the deposit rate by 10 basis points to -0.5% to help support the economy. The additional rate cut is unlikely to have much of an impact at this point. Monetary policy in Europe has run its course and further monetary easing will be largely ineffectual. Weak European economies and the ineffectiveness of monetary policy has left the eurozone vulnerable to large external shocks such as Brexit. Increasingly we hear calls for fiscal stimulus from Germany, France, and Italy. The European Commission's new leadership is pro-growth and seems open to fiscal expansion. We would become more constructive on European equities if the EU and the U.K. can somehow navigate past the Brexit quagmire, the trade war settles down, and European economies become less reliant on central bank intervention.

COMING UP NEXT WEEK		Est.
10/01 ISM Manufacturing SA	(Sep)	50.5
10/03 Durable Orders SA M/M (Final)	(Aug)	-
10/03 ISM Non Manufacturing SA	(Sep)	55.3
10/04 Nonfarm Payrolls SA	(Sep)	140.0k

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