Peapack Private Wealth Management

April 19, 2019

As of 04/19/2019		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	26,559.54	147.24	0.56	2.16	13.86	7.68
S&P 500	2,905.03	-2.38	-0.08	1.90	15.88	7.87
NASDAQ 100	7,689.72	61.57	0.81	1.01	21.48	12.53
S&P MidCap 400	1,953.43	-11.99	-0.61	1.65	17.46	1.59
Russell 2000	1,565.75	-19.05	-1.20	1.47	16.11	-0.51

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	2.38	Euro/Dollar	1.12	-0.52
5-Year	2.37	Dollar/Yen	111.92	-0.10
10-Year	2.56	Sterling/Dollar	1.30	-0.68
30-Year	2.96	Dollar/Cad	1.34	0.35

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

The first quarter earnings release season is now in full swing. To date, just over 15% of the companies in the S&P 500 Index have reported. Although there are many factors that ultimately determine the prices of stocks, profit growth is the key driver. A year ago, corporations received a massive benefit from the federal government's Tax Cuts and Job Act. This legislation caused a one-time jump in earnings last year. Because of this, it will be challenging to compare Q1 2019 results against the same quarter last year, given the fact that wages, transportation expenses, and materials costs have increased during this intervening time. According to Zacks Investment Research, year over year, Q1 S&P 500 earnings are expected to decline by 3.5%. This would be the first time in 11 quarters that earnings decline. Zacks expects that this drop will be driven by a 90-basis-point reduction in net margins – manifested primarily in the information technology sector due to slowing cell phone and semiconductor sales. On the positive side, the finance sector is expected to deliver an increase to earnings of almost 5%, with healthcare companies and retailers also contributing to the upside. Earnings are also expected to decrease by about 0.4% in Q2, but analysts anticipate that profits will accelerate once again in the latter half of this year.

Economy

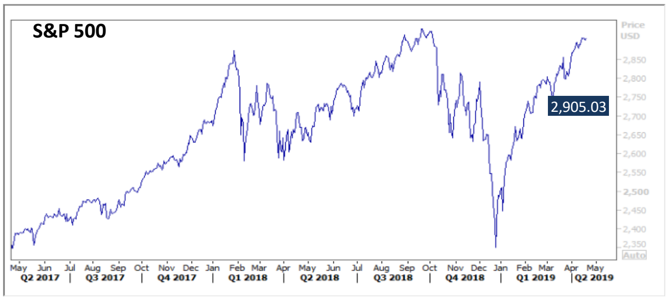
The most anticipated report this week was the retail sales report, which was released on Thursday. Retail sales increased 1.6% in March easily beating expectations. The all-important control category, which excludes food service, autos, gas and building materials advanced by 1.0%. Overall, 8 of 9 "control" categories saw higher sales last month. During the month, motor vehicle sales surged by 3.1% and gas station sales gained 3.5%. On Wednesday, the U.S. trade deficit narrowed in February by 3.4% to a seasonally adjusted $49.38 billion. The surprise metric was nominal exports increasing by 1.1%, which was led by capital goods and services exports. U.S. services exports at $70.14 billion was the highest level on record. Industrial production figures were announced on Tuesday and were below expectations, declining by 0.1% in March. Manufacturing output was unchanged and capacity utilization dropped to 78.8%. Finally on Tuesday we were pleased to see weekly jobless claims decrease by 5,000 to 192,000 during the week ending April 13th.

Fixed Income/Credit Market

Yields on the U.S. Treasury (UST) curve remained rangebound throughout the week as investors stayed cautious. The 10-year UST closed last week at roughly 2.57% and traded most of this week within a range of 4 basis points (bps). The 10-year peaked on Wednesday at 2.595% and touched a low of 2.555% on Monday. On the week, the spread between the 2-year and 10-year Treasuries decreased 1.5 bps to roughly 18 bps which is 1.66 bps above its year-to-date average. As investors have tussled with global growth concerns, benign inflation expectations, and geopolitical risks, the flight-to-quality has continued putting downward pressure on UST yields. From a technical perspective, the crossover last Friday of the 14-day 10-year relative strength index (RSI) into bearish territory has remained above 50 for the entirety of this week peaking at 56.6 on Wednesday. However, the markets seem to be moving towards bullish with the 10-year RSI closing the week at 52.3.

Equities

The holiday shortened week kicked off the first "full week" of earnings reports led by the financial sector. Just over 15% of the S&P 500 Index's constituents have posted 1Q'19 earnings with 76% beating analysts' estimates and posting 6.2% growth year-over-year. Investors mainly focused on earnings but economic releases late in the week and positive comments from JPM's CEO Jamie Dimon regarding the health of the overall economy boosted investor confidence. The broad market breached through the 2,900 level and closed roughly 1% below all-time highs. The best performing sectors were Industrials and Financials gaining 2.66% and 2.63%, respectively. The worst performing sector was Health Care down 5.26%.



Our View

The healthcare sector had been outperforming the broad market for many years until recently. A key factor influencing the relative performance of stocks over the less few years has been relative earnings growth which has helped lift healthcare stocks. Additionally, investors sought safe havens such as healthcare stocks during last year's market volatility. By the end of last year, the healthcare sector made up 15.6% of the S&P 500 due to its relative outperformance. The political winds shifted as the next presidential cycle kicked off at the start of 2019. The changing political climate caused the sector to badly lag the overall equity market. Healthcare stocks are now down slightly for the year compared to the broad equity market which has advanced 16%. Several issues are negatively impacting investors' perception of health care stocks, but clearly the uncertainty regarding the direction of U.S. health-care policy is the most significant factor. The demands for change have come from both sides of the political spectrum. The Trump administration is pushing for better price transparency and for the elimination of rebates paid by pharmaceutical companies to the pharmacy benefit managers. Rebates distort the behavior of consumers and health insurance companies with the result that patients get steered to costlier branded drugs. Congressional Democrats, some who have launched presidential campaigns, have announced plans to expand Medicare coverage to everyone. There are several competing versions of the "Medicare for All" approach, but in its extreme form it would effectively eliminate the role for private insurance and represent a massive reformulation of roughly 18% of the U.S. economy. The volatility exhibited by the healthcare stocks is reminiscent of the of the drawdown we saw from the companies with significant international exposure when the trade war began to heat up last spring. The significant selloff is an indication of the potentialy damaging impact that a change in policy (even when its implementation is many years in the future and highly uncertain) can have on specific industries and on equity performance.

COMING UP NEXT WEEK		Est.
04/22 Existing Home Sales	(Mar)	5.31M
04/25 Durable Goods	(Mar)	0.7%
04/26 GDP Advance	(Q1)	1.8%
04/26 U Mich Conditions Finals	(Apr)	97.0

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