PEAPACK PRIVATE
Wealth Management

The Weekly
Economic & Market Recap

Peapack Private Wealth Management

October 4, 2019

10/04/2019		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	26,573.72	-246.53	-0.92	2.31	13.92	-0.95
S&P 500	2,952.01	-9.78	-0.33	1.94	17.76	0.91
NASDAQ	7,982.47	42.85	0.54	1.05	20.30	-0.53
S&P MidCap 400	1,903.79	-18.95	-0.99	1.80	14.48	-5.00

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.39	Euro/Dollar	1.10	0.29
5-Year	1.33	Dollar/Yen	106.89	-1.17
10-Year	1.51	GBP/Dollar	1.23	-0.13
30-Year	2.02	Dollar/Cad	1.33	0.62

Source: FactSet

What Caught Our Eye This Week

Safe-haven assets are assets that are looked at favorably during times of rising global uncertainty. Traditionally, gold and three currencies, the U.S. dollar, Japanese yen, and Swiss franc, have been considered safe-haven assets. It is no surprise that demand for U.S. dollars has led the U.S. Dollar Index (DXY), a measure of the U.S. currency against a basket of six major currencies at a 2-year high. Jane Foley, a currency strategist with Rabobank, attributes some of the strength to the dollar's dominance in the global payments system and notes that world-wide demand for dollars has risen substantially since the 2008 global financial crisis. U.S. dollar moves can have implications across markets and it could be a factor as earnings season gets underway over the next few weeks. A strong dollar can be a headwind for large multinational companies with revenues that are derived from outside the U.S. Gold prices hit a six-year high in September amid fear of a slowdown in global growth, negative interest rates in Europe, and falling yields in the U.S. Lower yields (income) help benefit gold because simply holding gold produces no income. Over the last 12 months, gold funds have outperformed the S&P 500 and the Dow Jones Industrial Average. Year-to-date, gold is up over 18% putting it on pace for one of its best years in over the past decade.

Economy

The most anticipated report this week was the nonfarm payroll report, which was released on Friday. This report showed payrolls increasing by 136,000 in September, which was slightly less than the consensus forecast. The unemployment rate dropped to 3.5%, and the U-6 measure of unemployment decreased to 6.9%. The labor force participation rate was unchanged at 63.2%, and there were positive revisions of 45,000 jobs for the August and September reports. Average hourly earnings were unchanged and the year-over-year growth is now 2.9%. Examining the different employment sectors, healthcare added 39,000 jobs, professional and business services gained 34,000, and government added 22,000. In other news this week the ISM manufacturing survey eroded further to 47.8 in September, the lowest level since June of 2009. This survey also showed 15/18 industries contracting during the month of September. On Thursday, the ISM nonmanufacturing survey drifted lower posting a 52.6 for September. This level was below the consensus expectation of 55, and a 52.6 has not been posted in about three years.

Fixed Income/Credit Market

Fixed income performance in the third quarter was solid thanks to a dramatic compression in sovereign debt yields due to slowing global growth and muted inflation. All but one of the sectors that we follow had positive quarterly returns with the top performers being long duration high quality bonds, preferred equity and high quality international bonds (currency hedged) which returned 6.69%, 3.19%, and 2.96%, respectively. Over the course of the third quarter, the yield on the Bloomberg Barclays Global Aggregate Treasury Total Return Index dropped by 18 basis points (bps) to end the quarter at only 75 bps. Year-to-date, longer duration high quality bonds have performed exceptionally well with a total return of over 20%. It is interesting to note that negative yielding debt ended the quarter at $14.8 trillion, which increased approximately $2 trillion over the course of the third quarter. On the other hand, the weakest performing sectors for third quarter were international Treasuries (non-currency hedged), short-term U.S. Treasuries and low duration high yield bonds, which returned -0.48%, 0.61%, and 0.65%, respectively.

Equities

Markets closed higher on Monday to end the third quarter driven by positive developments on trade and positive PMI data out of China. Markets quickly reversed on Tuesday following the Institute for Supply Management's manufacturing data that reported another month of contraction signaling concerns about the health of the U.S. economy. The sell-off continued on Wednesday as investors' concerns rose regarding job creation and manufacturing data. Trade tensions escalated between the U.S. and EU after the WTO ruled Airbus was receiving illegal subsidies. The U.S. reacted by imposing tariffs on $7.5B worth of goods. Markets recouped almost all the week's losses in the last two trading days of the week amid investors' optimism for additional rate cuts and Friday's solid payroll number despite coming in slightly below expectations. The best performing sector was information technology increasing 1.1%. The worst performing sector was energy down 3.8%.

Our View

Major equity indexes fell again this week on several weak economic reports that rekindled recession fears. The Institute of Supply Management released September's manufacturing data that suggested the manufacturing economic segment, suffering from the trade war, was continuing to contract. It was the lowest reading of the ISM index in ten years. The manufacturing ISM index is closely watched because it provides an early warning of economic troubles ahead. But the manufacturing ISM index represents a relatively smaller segment of a very broad economy, so unless the weakness bleeds into other elements of the economy, a weak ISM can give a false recession signal. Equity bulls have argued that economic weakness has been confined to export-related industrials and manufacturing companies that are more exposed to the impact of the trade war. The relative sector performance within the equity market suggests a deeper concern regarding an economic slowdown. Over the last 12 months, the best performance came from interest-sensitive sectors utilities and real estate, both up more than 20%, and by recession-resistant consumer staples, that is up roughly 16%. Economically-sensitive sectors such as industrials, materials, and financials are all down. The non-manufacturing PMI for September fell as well, perhaps indicating that economic softness is beginning to affect other areas of the economy. On balance, the probabilities of recession next year have risen slightly, but slow growth still seems to be the most likely outcome. The Fed will continue to ramp up accommodation by lowering rates and expanding its balance sheet to assist the economy and to provide a buffer due to economic uncertainties. As the economy slows, the possibility rises that an exogenous shock will dislodge the economy's growth path and causes the U.S. economy to tip into a mild recession. Equity indexes are likely to be trapped in a trading range until the investors have more clarity regarding the fundamentals that will impact earnings growth in 2020 and 2021. The underlying growth potential of the economy and the resolution of shorter-term issues such as the trade war and Brexit will ultimately determine returns for equity investors over the next year.

COMING UP NEXT WEEK		Est.
10/08 PPI ex-Food & Energy SA M/M	(Sep)	0.20%
10/08 PPI SA M/M	(Sep)	0.10%
10/10 CPI NSA Y/Y	(Sep)	1.8%
10/11 Michigan Sentiment NSA (Prelim)	(Oct)	92.0

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