Peapack Private
Wealth Management

The Weekly
Economic & Market Recap

Peapack Private Wealth Management

June 14, 2019

As of 06/14/2019		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	26,089.61	105.67	0.41	2.26	11.84	3.63
S&P 500	2,886.98	13.64	0.47	1.94	15.17	3.76
NASDAQ 100	7,479.11	61.82	0.83	1.06	18.15	2.74
S&P MidCap 400	1,899.92	7.92	0.42	1.74	14.24	-4.80
Russell 2000	1,522.50	8.11	0.54	1.54	12.90	-9.63

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.84	Euro/Dollar	1.12	-1.14
5-Year	1.83	Dollar/Yen	108.54	0.30
10-Year	2.08	Sterling/Dollar	1.26	-1.19
30-Year	2.59	Dollar/Cad	1.34	1.06

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

According to The American Pet Products Association, spending on pets reached $72.5 billion in 2018 and is projected to increase by 4% in 2019 to $75.4 billion. Americans spend the largest portion of their pet care dollars on food ($29B) followed by veterinary care ($18B). Veterinary care is projected to grow faster than the food segment as consumers utilize expanded diagnosis and treatment choices to help their pets live longer. Growth is driven by the 68% of U.S. households which have at least one pet, and 76% of them say they would spend any amount necessary to keep their pets healthy. Since dogs and cats are living longer, they are at an increased risk for developing age-related disorders. The research and development process for animal health medicines is typically shorter and less costly than for human therapeutics. Animal health is primarily a cash business and is not exposed to the same insurance/third party payer and drug pricing risks that are often an overhang on human therapeutics. Over the past few years we have seen animal health companies evolve from being a small part of a pharmaceutical company to a distinct and growing part of the overall healthcare sector.

Economy

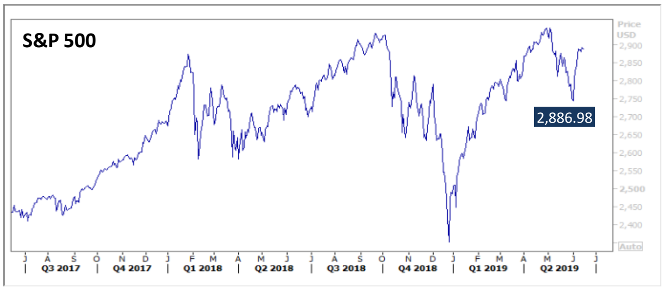
The most anticipated report this week was the retail sales report, which was released on Friday. Retail sales increased by 0.5% in May disappointing expectations. The all important control category, which excludes food service, autos, gas and building materials advanced by 0.5%. There were also positive revisions made to the April control category sales figures. Over the past three months control group sales have surged by 8.5% on an annualized basis. Overall 11 of 13 major categories reported growth in May, with solid gains in healthcare, sporting goods and non-store retail sales. In other news this week the Consumer Price Index displayed a 0.1% increase in May, which matched consensus expectations. The "core" CPI also increased by 0.1% and is now up 2.0% year-over-year. Finally, industrial production increased 0.4% in May beating expectations mainly because of a 2.1% jump in utilities output. Manufacturing also gained in May increasing by 0.2%.

Fixed Income/Credit Market

The confluence of slowing global growth, escalating trade tensions, low inflation and the prospect for easier monetary policy has sent global sovereign debt yields plummeting. Moreover, the Bloomberg Barclays Global 10+ Year Total Return Index now resides at 1.19% and has fallen 61 basis points (bps) since October of 2018. Year-to-date through Thursday The U.S. Treasury curve has compressed 41 to 68 bps between the 1 to 30-year tenors signaling a tremendous demand for safe haven assets. A dramatic compression in U.S. Treasury yields has typically coincided with a widening of credit spreads, but so far this year that has not been the case. Looking at investment grade credit spreads, the Bloomberg Barclays US Aggregate Corporate option adjusted spread (OAS) began the year at 153 bps and has fallen 27 bps year-to-date and is one basis point above the 5-year mean. The risk-on mood is even more apparent in the high yield fixed income sector with the current high yield OAS residing at 395 bps, which is down 131 bps in 2019 and trading roughly 46 bps below its 5-year mean of 441 bps.

Equities

Last week's rally continued on Monday after President Trump cancelled additional tariffs on imports coming from Mexico. Last Friday, the Bureau of Labor Statistics (BLS) reported weaker than expected employment figures that were over 100,000 less than analyst estimates. Market participants interpreted this "bad news" as "good news" because a slowing labor market raises the likelihood of a Federal Reserve rate cut(s) in 2019. The markets came under pressure on Tuesday after China promised a tough retaliation in response to remarks made by President Trump on Monday night to impose more tariffs on $300B of Chinese goods. Markets gained on Thursday following a spike in the price of oil after two oil tankers in the Gulf of Oman were attacked. Markets closed relatively flat on Friday recouping earlier losses that were driven by weaker than expected economic data out of China. The best performing sectors were Consumer Discretionary and Information Technology increasing 3.8% and 2.6%, respectively. The worst performing sector was Utilities, down 0.5%. For the week West Texas Intermediate Crude Oil declined 2.7%.



Our View

We have spent a significant amount of time discussing the rapid shift in the language used by Federal Reserve officials over the last few months. The Fed seems to be preparing the market for a possible rate cut if the economy slides south due to a weak manufacturing sector or trade issues. The change in the market's expectations regarding the future level of fed funds has been stunning. In October, fed funds futures were pricing in three rate increases, which was consistent with the Fed's dot plot. Immediately after the rate hike in December, and despite the negative equity market drawdown in the fourth quarter, fed fund futures were still pricing in one increase in 2019. After the dramatic deterioration in the U.S.-China trade situation in May and the heightened probability of a prolonged trade dispute, the market is now pricing in roughly two-and-half cuts to the fed funds rate. As the market becomes more convinced that the Fed's next move will be to lower rates, equity indexes have rallied and once again approached old highs. Price-to-earnings multiples are a function of investor confidence and interest rates. As interest rates drop, the discount rate for equities decreases driving PE multiples higher along with stock prices. The relationship between lower interest rates and higher PE multiples hold if the interest rate decline is not the harbinger of a recession. Investor confidence will erode if investors become concerned that a weak economy will cause earnings to fall. A meaningful downdraft in the equity market is the result of a process that begins with PE multiple compression that ultimately gets amplified as earnings estimates get revised lower. The steep decline in interest rates is concerning and is signaling a global economic slowdown with increased downside risks - the yield on the 5-year US Treasury declined from 3.04% at the beginning of November to 1.84% today. Economic indicators, however, seem to imply that the economy has enough forward momentum that a recession does not appear to be imminent. We expect that the U.S. economy remains on a modest growth path of 2% real GDP growth.

COMING UP NEXT WEEK		Est.
06/17 Empire State Index SA	(Jun)	11.0
06/18 Housing Starts SAAR	(May)	1,250K
06/19 FOMC Meeting		-
06/20 Leading Indicators SA M/M	(May)	0.10%

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