Peapack Private Wealth Management

May 17, 2019

| As of 05/17/2019 | | Wk Net | Wk % | Div | YTD % | 12 Mos % |
|---|---|---|---|---|---|---|
| **STOCKS** | Close | Change | Change | Yield | Change | Change |
| DJIA | 25,764.00 | -178.37 | -0.69 | 2.25 | 10.44 | 4.25 |
| S&P 500 | 2,859.53 | -21.87 | -0.76 | 1.95 | 14.11 | 5.16 |
| NASDAQ 100 | 7,503.68 | -82.85 | -1.09 | 1.05 | 18.54 | 8.72 |
| S&P MidCap 400 | 1,889.40 | -44.03 | -2.28 | 1.73 | 13.61 | -3.02 |
| Russell 2000 | 1,535.76 | -37.23 | -2.37 | 1.51 | 13.88 | -5.51 |

| **TREASURIES** | Yield | **FOREX** | Price | Wk %Change |
|---|---|---|---|---|
| 2-Year | 2.20 | Euro/Dollar | 1.12 | -0.72 |
| 5-Year | 2.17 | Dollar/Yen | 110.07 | 0.11 |
| 10-Year | 2.39 | Sterling/Dollar | 1.27 | -2.18 |
| 30-Year | 2.82 | Dollar/Cad | 1.35 | 0.31 |

Source: Thomson Reuters & Bloomberg

**What Caught Our Eye This Week**

On May 15th, the Centers for Disease Control and Prevention's National Center for Health Statistics released the latest set of statistics for the number of babies born in the United States during 2018. The "birth rate" fell 2% from the previous year and dropped to its lowest level in 32 years. This is the lowest number of births since they peaked in 2007 just prior to the global financial crisis. It also continues a multi-decade trend of the replacement level of fertility (the level at which a population exactly replaces itself from one generation to the next) being below its replacement level of 2.1 children for every two parents to maintain a stable population level. This pattern echoes that seen in other developed countries. Experts attribute the declining birth rate to a combination of cost, diminished access to resources, and increased education. How will it impact our economy? Without the replacement of its existing population through births or immigration, the U. S. will not have an adequate workforce to support the growing portion of the population that is retiring. Economists conjecture that falling birth rates over the last ten years have negatively impacted the U.S.' long-run growth rate by 0.7%.

**Economy**

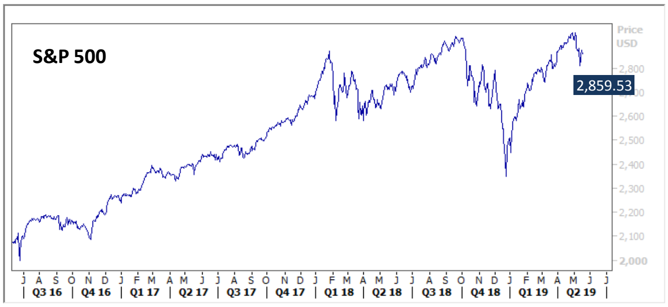
The most anticipated report this week was the retail sales report, which was released on Wednesday. Retail sales declined by 0.2% in April disappointing expectations. The all-important control category, which excludes food service, autos, gas and building materials was unchanged, also disappointing expectations. Overall, 6 of 13 major categories showed a drop in April. During the month, auto sales decreased by 5.9% while nonstore retailers showed a rare decline of 0.2%. Collectively, these weak figures could be explained by tax season, which was clearly worse than households anticipated. In other news this week, industrial production figures came in weaker than expected posting a decline of 0.5% in April. Manufacturing output decreased by 0.5% and capacity utilization dropped to 77.9%. On Thursday, housing starts increase by 5.7% to 1.235 million units at an annual rate. Total permits increased by 0.6%, and single family starts advanced by 6.2%, but on the negative side, single family permits collapsed by 4.2%.

**Fixed Income/Credit Market**

Escalating trade tensions between the U.S. and China resulted in a flight to quality trade. Specifically, the U.S. Treasury market experienced a strong week of demand, which caused yields to compress approximately 4 to 9 basis points (bps) across the 1 to 30-year tenors. Looking at U.S. ETF fixed income fund flows over the previous week further confirms the risk-off sentiment as aggregate, and government bonds experienced net flows of $1.8 and $1.4 billion, respectively. On the opposite side, credit sensitive sectors such as high yield corporate bonds, emerging market debt and bank loans experienced negative net flows. The risk-off trade caused credit spreads to widen with the Bloomberg Barclays U.S. Corporate High Yield OAS, expanding 14 bps on a weekly basis through Thursday. From a duration perspective, U.S. ETF investors favored a barbell approach with both ultra-short and long-term bonds exhibiting positive net flows. The implied probability of a Fed funds rate cut in December is now 74.6% as the December Fed funds futures contract declined 5.5 bps this week.

**Equities**

Last week's downward momentum continued into Monday as trade war concerns rose after China announced retaliatory tariffs of 5%-25% on $60B of U.S. goods. This sent the S&P 500 index down 2.2%, its worst single-day performance since December of last year. The market rebounded on Tuesday and continued its momentum for much of the week. Headlines on Wednesday seen as constructive regarding a U.S.-China trade deal, the White House's decision to delay European Union auto tariffs, and reports that the USMCA is close to resolving steel and aluminum tariffs were all catalysts for the broad market. On Thursday, the Trump administration signed an executive order targeting Chinese telecom companies Huawei and ZTE. The best performing sectors were Real Estate and Utilities gaining 1.5% and 1.4%, respectively; worst performers were Telecomm and Financials at -2.4% and -2.1%, respectively.




**Our View**

Economic theory suggests that a country's optimal tariff or trade restriction is zero regardless of other countries' trade policies. Despite well-reasoned economic theory, trade tariffs are frequently not zero, and trade wars do happen largely due to political considerations. There is a compelling argument that if the U.S. can shrink its trade deficit, we could boost economic growth meaningfully above the 2% trendline rate. Our current annualized net trade deficit is roughly $600 billion, which is 3% of our $21 trillion economy. China is by far the most significant contributor toward our trade deficit. The U.S. has a negative trade balance of $420 billion with China. The U.S. imports $540 billion worth of goods and services, and exports only $120 billion to China. The Trump administration would like to oblige the Chinese to buy more products from us, which would boost our exports to China, thus reducing the negative economic drag of such a large trade deficit. The actual trade deficit element of the dispute can be solved relatively easily. The non-trade aspects such as intellectual property protection, forced technology transfer, software piracy, and export controls will be far more challenging to resolve and even more difficult to enforce. Intellectual property (IP) theft can be accomplished through several methods, such as corporate cyberattacks and espionage. The U.S. Trade Representative has estimated that the annual loss to China is between $225 billion to $600 billion. Not only is IP costly for companies, but it has a dampening effect on product development, and it inhibits innovation. IP issues and the trade deficit have been a concern for over two decades – why has it become a kerfuffle that the Trump administration feels the need to address today? China, along with the U.S. and the EU block, has become an economic power and has the potential to dominate high-valued manufacturing (artificial intelligence, robotics, etc.), much like how it took over low-valued manufacturing a decade ago. That is why the U.S. wants to level the playing field. The stakes are high and will have significant ramifications regarding economic and global leadership.

| COMING UP NEXT WEEK | | Est. |
|---|---|---|
| 05/21 Existing Home Sales | (Apr) | 5.30M |
| 05/24 Durable Goods | (Apr) | -2.0% |

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