Peapack Private Wealth Management

November 8, 2019

11/8/2019		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	27,681.24	333.88	1.22	2.24	18.66	5.73
S&P 500	3,093.08	26.17	0.85	1.87	23.39	9.92
NASDAQ	8,475.31	88.91	1.06	0.99	27.73	11.95
S&P MidCap 400	1,998.39	14.89	0.75	1.72	20.16	4.62

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.66	Euro/Dollar	1.10	-1.33
5-Year	1.73	Dollar/Yen	109.15	0.92
10-Year	1.93	GBP/Dollar	1.28	-1.20
30-Year	2.41	Dollar/Cad	1.32	0.53

Source: FactSet

What Caught Our Eye This Week

Companies can choose the timing of their quarterly earnings releases as long as they are within U.S. Securities and Exchange Commission requirements. Most companies elect to announce in the third or fourth week after the end of the quarter, between Tuesday and Thursday, and evenly split either before normal trading hours or after normal trading hours. Companies often choose announcement dates that are timed in a consistent pattern. However, many academics have identified anomalous announcement timing patterns that are present in the marketplace today. If a company delays its release three or more days longer than past announcements, it is more likely to reveal negative news; and the longer the delay, the worse the results. The opposite is true for companies announcing three or more days early. Negative announcements are more likely to be made on very busy earnings release dates when investors have diminished capacity to follow the news. Bad news is also more likely to be announced after the close of trading when investors are wrapping up their busy days. Additionally, negative announcements are more likely to be made closer to the opening or closing of trading - again, when investors have less time to synthesize the information. Generally, the release of better-than-expected news follows the opposite patterns from weak news releases. Whether it is good news or bad news, it appears that corporations seek to manage financial information in an advantageous way.

Economy

The best news of the week came on Tuesday with the release of the ISM nonmanufacturing survey. The October reading was better than expected, rising to 54.7 from 52.6 in September. Overall, the growth was broad based with 13 industries reporting growth and five showing declines. The sub-indexes were positive with the business activity index rising to 57.0 and the new orders component hitting 55.6. Also on Tuesday the JOLTS report (job openings and labor turnover survey) showed 7 million job openings on the last business day of September. The "quits" rate moved down to 2.3% from 2.4% and the net employment gain over the last year is a respectable 2.5 million. On the negative side, there were 1.964 million layoffs reported for September, which is the highest level since May of 2012. Finally on Wednesday nonfarm productivity figures were reported for the third quarter, and these numbers were a meaningful disappointment relative to consensus expectations. Productivity declined 0.3% in Q3 and helped push unit labor costs higher (↑3.6%).

Fixed Income/Credit Market

U.S. Treasury (UST) yields were buoyed this week by optimism over the U.S.-China trade deal. However, on Friday, President Trump announced that the U.S. has not formally agreed to a tariff rollback which put downward pressure on interest rates early in the trading session. Nevertheless, it was not long before yields turned positive again on the day after the University of Michigan Consumer Expectations Index came in higher than forecasted. Week-over-week, the UST curve ended higher and steeper. The benchmark 2-year and 10-year Treasuries increased a respective 12.3 bps and 23 bps which steepened the benchmark spread between the two tenors 10.7 bps to 26.4 bps. The 10-year Treasury has been trading steadily above its 100-day moving average of 1.796% since November 4th; however, given the precipitous drop in interest rates in 2019, the 10-year tenor is still 20 bps from trading at its 200-day moving average.

Equities

All three major domestic equity indexes had yet another strong week and finished at all-time highs. This marks the fifth consecutive positive week which is the longest streak since February. On Monday, stocks continued to move higher thanks to constructive comments over the weekend from U.S. Commerce Secretary Wilbur Ross regarding trade negotiations. The market flatlined over the next two days which was likely a result of investors taking a breather after a streak of record-setting closes. Stocks posted back-to-back gains on Thursday and Friday after Bloomberg reported the 'phase one' trade deal with China would include tariff rollbacks. This was followed up with reports that the rollbacks are being faced with opposition within the White House and President Trump telling reporters that the U.S. has not agreed to roll back tariffs. Despite this news, the market closed higher.

Our View

The U.S. Treasury yield curve from 3-month to 10-year had been inverted since the end of May with the yield on the 10-year Treasury bond being below the 3-month treasury bill. Since the yield curve has inverted before every recession since 1975, the sustained inversion rightfully had investors nervous. The yield on the 10-year Treasury spiked higher in November with the yield jumping from 1.70% to 1.93%. After the Federal Reserve cut the fed funds rate at the end of October, the movement of the short end of the curve has been muted. The combination of rising intermediate-to-long rates and almost no change at the short end of the curve has caused the yield curve to normalize. There are multiple reasons for the bear steepening of the yield curve. First, the U.S.-China trade situation seems to be improving and hopes for a partial trade deal are rising. Both sides have strong economic and political reasons to make progress toward a trade deal. The intellectual property and forced information transfer will be challenging to resolve, but financial markets only need a de-escalation of tariffs to make progress. Second, economic indicators have begun to stabilize. It is too early to suggest that the global economy growth slump is bottoming, but it was encouraging to see German factory orders rising 1.3% in September. Additionally, last month's domestic employment report also eased concerns regarding the pace of slowing in the U.S. The risk-on sentiment has driven yields higher and equity markets to new highs. Bond yields are still low relative to heuristics that bond investors have relied upon in the past but have been artificially constrained due to central bank intervention. We would expect the 10-year Treasury yield to be closer to 3%, with inflation running close to 1.70%. The signal from the bond market with regard to the health of the economy is being confused due to negative rates across the globe. Our base case is for the economy to continue on a moderate growth path assuming a partial trade deal gets completed.

COMING UP NEXT WEEK		**Est.**
11/13 CPI ex-Food & Energy SA M/M	(Oct)	0.20%
11/14 PPI SA M/M	(Oct)	0.25%
11/15 Retail Sales SA M/M	(Oct)	0.10%
11/15 Industrial Production SA M/M	(Oct)	-0.35%

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