The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Private Wealth Management

December 14, 2018

As of 12/14/2018		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	24,100.51	-288.44	-1.18	2.35	-2.50	-1.67
S&P 500	2,599.95	-33.13	-1.26	2.07	-2.76	-1.96
NASDAQ 100	6,594.96	-18.31	-0.28	1.14	3.10	3.21
S&P MidCap 400	1,732.81	-48.13	-2.70	1.83	-8.83	-7.19
Russell 2000	1,410.81	-37.28	-2.57	1.61	-8.12	-6.38

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	2.74	Euro/Dollar	1.13	-0.64
5-Year	2.73	Dollar/Yen	113.37	0.55
10-Year	2.89	Sterling/Dollar	1.26	-1.14
30-Year	3.15	Dollar/Cad	1.34	0.41

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

Responsible investing is widely understood as the integration of environmental, social and governance (ESG) factors into the investment process and decision making. ESG is also referred to as sustainable investing and it has been growing very quickly. U.S. domiciled assets invested sustainably rose by 44% in the past two years to $12 trillion. In 1995, when the U.S. SIF (The Forum for Sustainable and Responsible Investment) first measured the size of the US sustainable investment universe, the figure was $639 billion. Globally, assets are up 25% over the last two years to $22 trillion. According to Morningstar, sustainable funds averaged $924 million in monthly inflows in the first five months of this year, a pace that's nearly twice the 2017 average of $532 million. Flows into such products have accelerated since the 2016 U.S. election. In the first half of 2018, thirteen explicitly ESG funds were launched bringing the total number of sustainable funds to 285 as calculated by Morningstar. Available in the new year will be sustainable versions of the Russell 1000, Russell 2000 and Russell 3000 indexes.

Economy

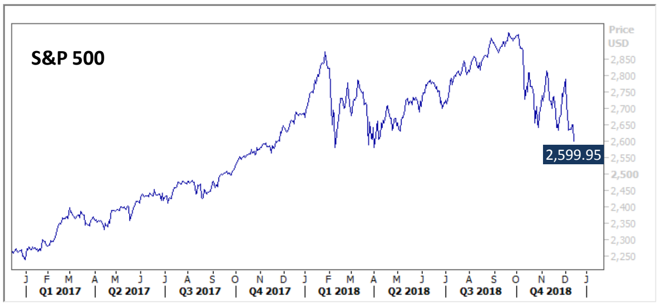
Producer and consumer inflation data was reported earlier this week. On Tuesday, November PPI increased 0.1% which was above consensus expectations of no change, and producer prices are now up 2.5% year-over-year. The "core" prices, which exclude food and energy, rose 0.3% during the month and have increased 2.7% over the past 12 months. On Wednesday, the Consumer Price Index (CPI) showed no change in November, but the index is up 2.2% over the past year which matched consensus expectations. The "core" consumer prices increased 0.2% during the month and have risen 2.2% year-over-year. Finally, on Friday, retail sales and industrial production numbers were reported. Retail sales increased 0.2% in November and are now up 4.2% versus a year ago. Nine of the 13 major categories showed an increase in sales, led by non-store retailers. This category now makes up 11.7% of all retail sales, an all-time record high, according to First Trust Advisors LP. Industrial production figures showed a 0.6% increase in November which beat consensus expectations of 0.3%. Manufacturing, which excludes mining/utilities, was unchanged while overall capacity utilization rose to 78.5%.

Fixed Income/Credit Market

On Thursday, the European Central Bank (ECB) announced that they will end their asset purchasing program at the end of this year. Theoretically, credit spreads on corporate bonds should begin widening as a major buyer effectively reduces its commitment to expand future purchases. Given that the ECB will continue reinvesting principal from assets that mature, spread widening should be somewhat contained. In the U.S., both investment grade (IG) and high yield (HY) option-adjusted spreads (OAS) have widened materially year-over-year due to technical rather than fundamental factors. According to the Bloomberg Barclays IG Index, spreads are currently trading at 140 basis points (bps) which is 31 bps above the one-year mean of 109 bps. Additionally, the HY Index is trading at 430 bps which is 84 bps above the one-year mean of 346 bps. Since the close of December 14, 2017, IG 5-year AA, A and BBB-rated composites are 32.6 bps, 35.5 bps, and 51.8 bps higher, respectively. Over that same period, HY 5-year BB and B-rated composites are 92.2 bps and 122.5 bps higher, respectively.

Equities

On Monday, a new eight-month low for the S&P 500 was established intra-day, but the market rallied off of this low to end the day in positive territory. Momentum continued on Tuesday's open despite political concerns between Republicans and Democrats. Gains through mid-week were lost after a steep sell-off began in the last half-hour of trading on Wednesday. The main concerns that weighed on markets this week were a threat of a government shutdown, the European Central Bank ending its quantitative easing program and mentioning slowing economic growth. Brexit related uncertainty, China's weaker than expected economic data, and continued trade tensions were also concerns weighing on stock prices. The VIX closed at 21 after hitting an intra-week high of 26 on Monday. Utilities and Consumer Staples have outperformed since the start of the fourth quarter. This trend continued as Utilities were the leading sector up 0.58%. The Financial and Energy sectors posted the biggest losses down 3.4% and 3.1%, respectfully.



Our View

In March of 2015 the ECB embarked on a quantitative easing program to fight off the threat of deflation. The goal of quantitative easing was to push down market interest rates to encourage economic activity and reignite inflation. Since 2015, the ECB's balance sheet has grown by 2.6 trillion euros and currently stands at 4.7 trillion euros, which equals roughly 40% of European GDP. The ECB announced that it will end its bond buying program at the end of December, however, the size of the balance sheet will not change as maturing debt will be reinvested and bond purchases can be reinitiated in the future if necessary. The announcement was not a complete surprise as Mario Draghi has been prepping the market, but the decision comes at a tenuous time as GDP growth in Europe is expected to decelerate from 1.9% this year to 1.7% in 2019. Moreover, the Markit Eurozone Purchasing Managers Composite Index which started the year at 58.1 (any measure above 50 signifies expansion) has steadily declined to 51.3 in December. Also, headline inflation is expected to slow from 1.8% in 2018 to 1.6% next year. At the current juncture the ECB expects to keep borrowing rates extremely low until at least September of 2019, but given the slowing economic momentum it would be very surprising to see the ECB raise rates in 2019. With risks perhaps shifting to the downside in Europe and increased market volatility, the normalization of interest rates may prove to be extraordinarily difficult. Furthermore, if the ECB is unable to raise rates meaningfully it will lose a key tool for combating the next recession.

COMING UP NEXT WEEK		Est.
12/18 Housing Starts Number	(Nov)	1.230M
12/19 Fed Funds Target Rate	(19 Dec)	2.25-2.5%
12/21 Durable Goods	(Nov)	1.8%
12/21 GDP Final	(Q3)	3.5%
12/21 Personal Income MM	(Nov)	0.3%
12/21 U Mich Sentiment Final	(Dec)	97.5

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