PEAPACK PRIVATE
Wealth Management

The Weekly
Economic & Market Recap

Peapack Private Wealth Management

August 23, 2019

08/23/2019		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	25,628.90	-257.11	-0.99	2.34	9.87	-0.11
S&P 500	2,847.11	-41.57	-1.44	2.00	13.57	-0.35
NASDAQ	7,751.77	-144.23	-1.83	1.10	16.83	-1.61
S&P MidCap 400	1,836.55	-36.67	-1.96	1.83	10.43	-9.39

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.52	Euro/Dollar	1.11	0.04
5-Year	1.41	Dollar/Yen	105.96	-0.40
10-Year	1.53	GBP/Dollar	1.23	1.08
30-Year	2.02	Dollar/Cad	1.33	-0.02

Source: FactSet

What Caught Our Eye This Week

To deal with the global financial crisis in 2008, many central banks cut interest rates to nearly zero percent. A decade later, interest rates remain low and in some instances are negative. Under a negative rate policy, financial institutions are required to pay interest for putting their reserves with the central bank. It is the central banks way of penalizing financial institutions for holding on to cash in hopes of prompting them to lend. About a third (estimated $16 trillion) of the tradeable bonds in the world have negative yields. Germany, Netherlands, and Switzerland have negative yields across their full spectrum of rates. This week, for the first time, Germany sold 30-year debt at a negative yield. Investors that purchased the bonds paid more than face value for a bond that pays no interest, but Germany's sale was not successful. Investors only purchased about 40% of the issue and the government had to purchase the rest. Strategists say that prolonged negative interest rates could bring more unintended consequences than benefits. It seems a decade of low and negative interest rates have not had the desired effect.

Economy

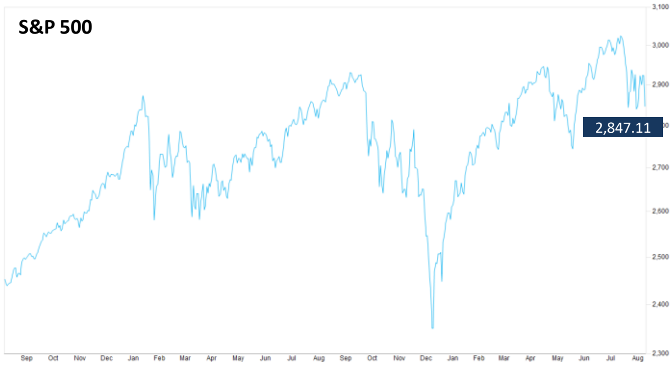
The most anticipated report this week was the existing home sales report, which was released on Wednesday. These sales were better than expected increasing by 2.5% to 5.42 million units at an annual rate in July. July marked the first year-over-year uptick in 17 months, and the second strongest month since April 2018. The median price of an existing home declined to $280,000 and the year-over-year gain is now 4.3%. There were also positive revisions made to the existing home sales figures for June, which now show an advance of 5.29 million units. Mortgage rates have decreased by 110 basis points since their peak in November 2018, but headwinds remain in the housing market with limited inventory and high prices. On Friday, new home sales were reported and these figures were a modest disappointment, dropping by 12.8% in July to 635,000 units at an annual rate. There was a large upward revision to the June numbers, which now show a positive advance of 728,000 units. Finally, on Thursday, the Markit PMI manufacturing survey posted a small decline, dropping from 50.4 to 49.9, a level not seen since September 2009.

Fixed Income/Credit Market

Investors focused on analyzing the minutes from the July Federal Reserve meeting as well as comments from various Federal Reserve Governors and a speech from Fed Chair Jerome Powell at the Jackson Hole symposium. Markets were volatile throughout the week. On Thursday, the more hawkish comments from Fed Governors increased fears of recession. Fed Chair Powell's speech on Friday was more dovish and he reiterated that the Fed would take the appropriate actions to sustain the expansion. His comments appeared to leave the option for a September rate cut on the table. Yields declined on Friday with renewed escalation in trade war rhetoric. The spread between the 2-year and 10-year U.S. treasuries narrowed on the week approximately 6 basis points with their yields ending at roughly 1.52 and 1.53, respectively. According to Bloomberg, the 3-month and 10-year Treasuries reached the largest inversion since March 2007.

Equities

Domestic equities posted their fourth consecutive weekly decline as investors reacted to the Fed's decision to hold rates and trade war tensions escalated later in the week. Investor sentiment improved at the start of the week after China announced a new interest rate policy that would help stimulate their economy. Strong retail earnings reports as well as positive housing data reported mid-week led to further gains. The market sold off mid-day Thursday after Fed officials dampened expectations for an extended rate cut cycle. Fed Chair Jerome Powell's speech at Jackson Hole indicated there could be further rate cuts if warranted. China also announced additional tariffs on $75B of additional U.S. products this Friday, increasing trade tensions and reducing expectations for a near-term resolution. The steep sell off on Friday led to a 23% increase in volatility measured by the VIX now priced above 20. Consumer discretionary and utilities were the only two sectors to post gains week-over-week. The worst performing sector was materials down roughly 3%.



Our View

The current U.S. economic expansion became the longest on record this summer. Despite a reasonably strong consumer and low unemployment, there are growing concerns of a possible recession. The yield curve is flashing caution, as the trade war continues to weigh on the global economy. The Trump administration is considering several options to give the economy a lift. One measure they are considering is a reduction of the capital gains tax. Capital gains tax reductions are often proposed as a policy that will increase savings and investment, provide a short-term stimulus, and boost long-term economic growth. In our opinion, the economic benefits are probably relatively small and largely temporary. Overall, from a longer-term perspective, economic benefits are created by higher levels of aggregate savings and investment. National savings is made up of public savings and private savings. The impact on the budget deficit, and in turn public savings, from a capital gains tax rate cut is dependent on the multiplier effect and on capital gain realizations. The multiplier effect is the greatest in the first year or two following the tax rate cut. Economists do not agree on the size of the multiplier and, as a result, disagree on the potential impact. It is likely (in our opinion) that higher after-tax returns due to a lower capital gain tax rate would incentivize enough additional private savings to have a modestly positive long-term impact. Although the impact from an economic perspective may be relatively small, from the point of view of the investor, it is worth considering lowering or indexing the capital gain tax rate. Capital gains taxes discourage selling assets and adjusting portfolios because capital gains are only taxed when realized. The "lock-in" effect causes investors to hold suboptimal portfolios and forgo investment opportunities with better pre-tax returns.

COMING UP NEXT WEEK		Est.
08/26 Durable Orders	(Jul)	0.35%
08/30 Personal Income SA M/M	(Jul)	0.50%
08/30 Personal Consumption SA M/M	(Jul)	0.65%

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