Peapack Private
Wealth Management

The Weekly
Economic & Market Recap

Peapack Private Wealth Management

June 28, 2019

As of 06/28/2019		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	26,599.96	-119.17	-0.45	2.22	14.03	9.84
S&P 500	2,941.76	-8.70	-0.29	1.91	17.32	8.27
NASDAQ 100	7,671.08	-57.71	-0.75	1.04	21.19	9.09
S&P MidCap 400	1,945.51	17.40	0.90	1.70	16.99	-0.25
Russell 2000	1,566.57	16.94	1.09	1.49	16.17	-4.77

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.75	Euro/Dollar	1.14	-0.02
5-Year	1.77	Dollar/Yen	107.88	0.51
10-Year	2.01	Sterling/Dollar	1.27	-0.40
30-Year	2.53	Dollar/Cad	1.31	-1.02

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

For the first time ever in April, clean energy resources supplied more of America's electricity (22% of the total) than coal power (20%)c according to Bloomberg. Hydroelectric dams, solar panels, and wind turbines produced almost 70 million megawatt-hours of power during the month, beating the 60 million generated by coal. This is the most clean power the U.S. has ever made. There are a number of reasons for the growth of cleaner power but the biggest drivers are the rapid development of solar and wind farms throughout the country and the decline in the price of the various forms of renewable energy. Though some of this shift can be attributed to the fact that many coal plants were simply down for scheduled spring maintenance, it is likely that renewables (energy collected from sunlight, wind, rain, tides, waves, and geothermal heat) will continue to eclipse coal in future months as more wind and solar farms are brought on line. An additional sign that a transition is slowly taking hold is a 12-year power purchase agreement between Mondelez International and Enel Green Power which will provide enough solar power to produce over half of all the Oreos consumed in the U.S. each year, and reduce the food and beverage company's carbon dioxide (CO_2) emissions by approximately 80,000 tons per year.

Economy

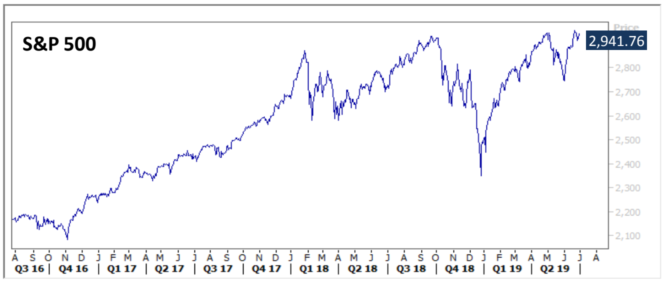
There was an abundance of economic data released this week with the headliner being the final read on 1st quarter real GDP. The real GDP growth rate was unrevised coming in at a 3.1% annual rate which was below consensus estimates of 3.2%. The upward revisions to business investment roughly offset downward revisions to personal consumption, and the largest contributor to the growth rate came from net exports. On Wednesday, the durable goods report showed a 1.3% decline in May for new orders which was below expectations of -0.3%. Core shipments, a key input for business investment in the calculation of GDP growth, increased by 0.7% in May and was above consensus expectations of 0.1%. Finally, on Friday, consumer spending data was released. Consumer spending rose 0.4% in May and showed strength in expenditures on motor vehicles, restaurants and hotel accommodation. This came in below expectations of 0.5%. The spending was supported by a 0.5% increase in personal income which matched April's increase and was above expectations of 0.3%.

Fixed Income/Credit Market

The 10-year municipal debt backed by the state of New Jersey is currently trading at approximately 50 basis points above the Bloomberg 10-year AAA municipal index. During the second quarter, the NJ 10-yr municipal index indicates that yields topped out at 2.57% in April and are currently trading at roughly 2.13%. The cap on state and local tax (SALT) deductions has buoyed the strong demand for municipal debt, particularly in high tax states such as New Jersey. Furthermore, reinvestment demand for retiring debt has far outpaced supply and is expected to continue during the summer months. New Jersey's visible 30-day supply is currently at $19.7MM while the amount of debt expected to retire is $1.4B. The supply scarcity has put tremendous downward pressure on municipal bond yields. However, 10-yr Bergen County general obligation bonds (Moody's Aaa) printed at 1.90% on Thursday equating to a 93% muni to Treasury ratio – exceedingly higher than the 80.6% national ratio. The taxable equivalent yield for NJ investors in the highest tax bracket equals 3.53%.

Equities

Stocks traded slightly lower in the final week of June after reaching an all-time high last week. Weak economic data, geopolitical tensions with Iran, investor optimism regarding U.S.-China trade, and positive results from the Fed's stress test were the driving events this week. Stocks declined on Tuesday following weaker than expected housing data and comments made by Fed Chief Jerome Powell that the central bank was still not clear about reducing the benchmark interest rate. The markets' downward momentum reversed on Thursday after reports were released that Chinese President Xi Jinping will present conditions at the G-20 summit to continue the dialogue toward a trade resolution. Financials rallied on Friday after positive results were released following the completion of the Fed's stress test and the Comprehensive Capital Analysis and Review. The best performing sector this week was Materials increasing 1.47%. The worst performing sector was Real Estate down 2.73%.



Our View

During the first half of 2019, we have seen several surprising shifts in the investing landscape. The dramatic pivot of the Federal Reserve from a relatively hawkish position in the middle of December to its outright dovish attitude today is an obvious example. The collapse of the trade talks and the looming potential for a full-blown trade war has also caught many by surprise. Despite the above travails, investors have enjoyed positive returns in the equity and fixed income markets. The S&P 500 has produced a total return of almost 18% and the Barclay's Aggregate Bond Index has returned roughly 6%. Outside of geopolitical event risk, the biggest near-term threat to investors is the trade war between the U.S. and China. The economies of both countries have already sustained damage. Higher tariffs on Chinese products have increased the cost to U.S. consumers and have marginally slowed GDP growth in both countries. Manufacturing indexes globally have been under pressure suggesting that the manufacturing industries have been especially impacted by the deteriorating trade situation. The potential impact on profits is worrisome. If the trade war continues to escalate and the U.S. does add tariffs on an additional $300 billion of Chinese goods, the impact on consumer prices has been estimated to be roughly 1%. Price pressure could be mitigated slightly by some product substitution if there are suitable alternatives. Higher costs for consumers in aggregate, at the margin, will crowd out spending on other products resulting in lower corporate revenue growth. As companies attempt to deal with the distortions created by tariffs, supply chains and the location of production will change, causing additional costs for corporations. Lower revenue and higher costs will weaken margins and slow profit growth. Financial markets are hopeful that this weekend's G-20 meeting will produce some positive momentum toward a long-term resolution to the trade dispute. The harsh and demanding nature of the trade rhetoric in May makes a deal very unlikely in the short-term. Our view is that we will exit the weekend largely in the same place we are now, but perhaps the conversation will be more constructive and the optics will improve.

COMING UP NEXT WEEK		Est.
07/01 ISM Manufacturing PMI	(Jun)	51.5
07/03 Factory Orders MM	(May)	0.2%
07/03 ISM N-Mfg PMI	(Jun)	56.0
07/05 Non-Farm Payrolls	(Jun)	165k

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