Peapack Private Wealth Management

The Weekly
Economic & Market Recap

Peapack Private Wealth Management

May 24, 2019

As of 05/24/2019

STOCKS	Close	Wk Net Change	Wk % Change	Div Yield	YTD % Change	12 Mos % Change
DJIA	25,585.69	-178.31	-0.69	2.27	9.68	3.12
S&P 500	2,826.06	-33.47	-1.17	1.97	12.74	3.61
NASDAQ 100	7,300.96	-202.72	-2.70	1.08	15.34	5.05
S&P MidCap 400	1,862.83	-26.57	-1.41	1.77	12.01	-4.55
Russell 2000	1,514.11	-21.65	-1.41	1.54	12.28	-7.01

TREASURIES	Yield	FOREX	Price	Wk %Change
2-Year	2.17	Euro/Dollar	1.12	0.39
5-Year	2.12	Dollar/Yen	109.29	-0.74
10-Year	2.32	Sterling/Dollar	1.27	-0.09
30-Year	2.75	Dollar/Cad	1.34	-0.22

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

Forty-three million Americans have outstanding student debt. According to the Federal Reserve Bank of New York, at the end of 2018, borrowers nationwide owed $1.5 trillion in federal student loan debt and 5.2 million are in default. Millennials, those born between 1981 and 1996, have the highest debt exposure. Many millennials were entering college as tuition and fees at public and private schools rose roughly three times the rate of inflation during the period 2007-2018. Issues related to student debt are wide-ranging. Millennials are putting off marriage, children, and buying houses. These things alone are putting a damper on overall consumer spending which is the most important driving force of the U.S. economy. In March 2018, Federal Reserve Chairman Jerome Powell said the burgeoning levels of student loan debt could weigh down economic growth over time. Lawmakers are concerned that student loan debt is also hurting millions of Americans in terms of retirement savings. re are several senators who have been exploring legislation that would help Americans balance paying off student loans and saving for retirement at the same time.

Economy

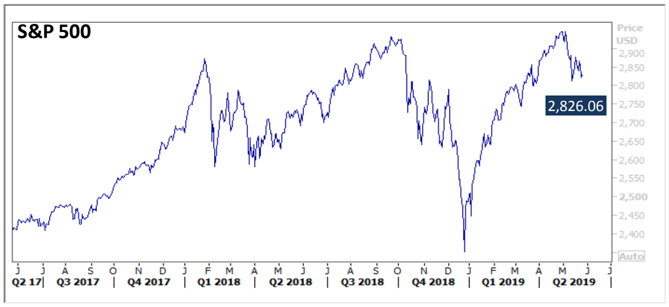
The most anticipated report this week was the durable goods report, which was released on Friday. Overall, new orders for durable goods declined by 2.1% in April and are now unchanged year-over-year. Core capital goods orders decreased by 0.9% and core capital goods shipments were unchanged. Core capital goods orders are one of the best leading indicators for the U.S. economy, and core capital goods shipments are used by the government to calculate business investments for GDP purposes. In other news this week, existing home sales dropped again, declining by 0.4% to 5.19 million units at an annual rate. These sales are now down 4.4% year-over-year. The median price of an existing home rose to $267,300 in April and is now up 3.6% versus a year ago. On Thursday, new home sales figures disappointed, showing a decline of 6.9% to 673,000 units at an annual rate. These sales are up 7.0% from a year ago. Finally, weekly jobless claims dropped by 1,000 to 211,000 during the week ending May 18th. The four week moving average is now at 220,000.

Fixed Income/Credit Market

The 10-year (10Y) U.S. Treasury Note has spent very little time above 3.00% since dropping 8.7 basis points (bps) between May 27 and June 3, 2011. Over this eight-year horizon, the average yield for the U.S. 10Y is roughly 2.29% which is just 3 bps below today's rate of 2.32%. After the benchmark's descent below 3.00% during the week ended June 3, 2011, it climbed backed to a peak of 3.18% on July 1, 2011. However, less than one-year after 2011's high of 3.18%, the 10Y ended the week of June 1, 2012 173 bps lower at 1.45%. Despite the surge in interest rates during 2013 dubbed "the taper tantrum", yields did not reach 3.00% until the week ended December 27, 2013. Since then, the 10Y has had many peaks and troughs but has only breached 3.00% three separate times all occurring briefly in 2018. With all of today's global uncertainties – slower global growth, benign inflation, accommodative monetary policy, the U.S.-China trade war, and Brexit, it appears that interest rates may be lower for longer.

Equities

Equities continued to decline for a third consecutive week on the absence of any indication that the U.S. and China will resolve their trade disputes in the near future. The U.S. decision to ban American companies from business dealings with Chinese telecom giant, Huawei, heightened investors' concerns about a prolonged trade war. The longer tariffs and other trade disruptions last, the greater an impact it could have on global economic growth and business' margins. In addition to the negative trade narrative, oil prices declined by over 5% this week on concerns about the balance between rising inventories and possible demand impacts from slowing economic growth. Oil prices had their largest one-day drop of the year on Thursday, and the energy sector dropped over 3% on the day. With Q1 earnings season behind us and the Federal Reserve indicating a patient approach to future interest rate adjustments, equity investors will continue to be primarily focused on trade negotiations and the direction of the global economy.



Our View

As the tensions between China and the U.S. simmer, both sides are looking beyond tariffs to inflict greater economic pain on their opposition. One idea that has surfaced in the past few weeks revolves around China selling a substantial portion of its massive $1.12 trillion U.S. Treasury hoard. The risk to the U.S. resides in the fact that a massive budget shortfall has caused Treasury issuance to surge and if China further adds to the supply by selling its Treasuries it could cause U.S. borrowing costs to rise. A rise in Treasury yields would crowd out government spending in other areas of the economy and negatively impact growth. However, there are numerous reasons why it would not be in China's best interest to liquidate a large portion of their Treasury holdings and interfere with U.S. interest rate levels. First, accommodative monetary policy around the globe has caused interest rates to fall below zero on over $10.5 trillion of debt. Even though Treasury yields are extremely low on a historical basis, they are still highly attractive compared to alternative sovereign debt yields. Second, if the Chinese flood the market with Treasuries it would weight on the dollar and cause Chinese exports, which are already inflated by tariffs to be more expensive on U.S. soil. Third, China runs a sizable trade surplus with U.S. which causes it to have an abundance of dollars. Moreover, China manages its exchange rate to a set band versus the dollar and to do so it must be constantly buying and selling both yuan and dollars. Owning Treasuries allows China to efficiently engage in its exchange rate management process. Lastly, the Treasury market is the largest and most liquid debt market in the world and if the risk-off trade were to escalate due to rising tensions between the U.S. and China, we would expect demand for Treasuries to surge and counter any additional added supply.

COMING UP NEXT WEEK		Est.
05/28 Consumer Confidence	(May)	129.8
05/30 GDP 2nd Estimate	(Q1)	3.1%
05/31 Personal Income MM	(Apr)	0.2%
05/31 Consumption, Adjusted MM	(Apr)	0.2%
05/31 U Mich Sentiment Final	(May)	100.0

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