The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Peapack Private Wealth Management

March 15, 2019

As of 03/15/2019		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	25,848.87	398.63	1.57	2.25	10.81	3.92
S&P 500	2,822.48	79.41	2.89	1.95	12.58	2.73
NASDAQ 100	7,306.99	291.30	4.15	1.06	15.43	3.93
S&P MidCap 400	1,895.86	35.58	1.91	1.71	14.00	-1.37
Russell 2000	1,553.54	31.65	2.08	1.48	15.20	-1.46

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	2.44	Euro/Dollar	1.13	0.76
5-Year	2.40	Dollar/Yen	111.49	0.28
10-Year	2.59	Sterling/Dollar	1.33	2.09
30-Year	3.01	Dollar/Cad	1.33	-0.58

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

Amidst a positive backdrop for the global equity markets this week, investors received information on Friday that U.S. manufacturing output fell 0.4% in February (relative to the previous month), declining for a second month and hitting its lowest level since July 2018. While January's figure was largely tied to lower automobile production, February's drop was broader-based, affecting the machinery, electronics, and apparel sectors. Barring a large rebound in March, output will contract for the first quarter. Viewed in conjunction with the Empire State Manufacturing Index falling to a near two-year low and 10-year U.S. Treasury yields falling to 2.59%, this statistic suggests that demand for manufacturing output continues to be weighed down by waning fiscal stimulus, ongoing trade policy uncertainty, and the effects of Fed tightening on interest-rate sensitive goods. It could be an indication of an economy that is losing momentum and may foreshadow a slowdown in economic growth later this year.

Economy

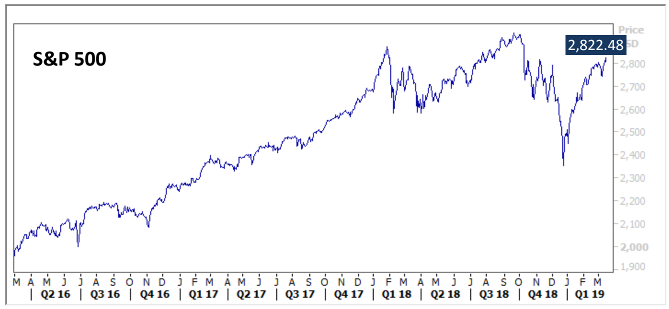
The most anticipated report this week was the durable goods report, which was released on Wednesday. Overall new orders for durable goods increased by 0.4% in January, and are now up 8.4% year-over-year. Core capital goods orders and core capital goods shipments both advanced by 0.8%. Core capital goods 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 the consumer price index increased by .17% in February, which was very close to expectations. The closely followed "core" CPI advanced by .11% and is now up 2.1% year-over-year. Food prices increased by 0.4%, which was the largest monthly gain in almost five years. On Wednesday, the producer price index showed an increase of 0.1%, and is now up 1.9% year-over-year. Ironically, this is the first increase in four months. Finally on Friday the JOLTS report (job openings and labor turnover survey) showed 7.6 million job openings in January.

Fixed Income/Credit Market

The U.S. Treasury added $78 billion to its U.S. Treasury Note supply this week with mixed results. The $38B 3-year auction was fair with a bid-to-cover ratio of 2.56 times which was right in line with the previous six auction average. However, given the continued rally in U.S. Treasury yields, the 3-year auction yield stopped at 2.448% which is 31.9 basis points (bps) lower than the previous six auction average yield. The auction statistics show that the sale of $24B 10-year Notes was much stronger with a bid-to-cover ratio of 2.59 times which was higher than the previous six auction average of 2.5 times. The 10-year went off at 2.615%, 32.6 bps lower than the previous six auction average yield of 2.941%. The $16B 30-year auction was much softer with a bid-to-cover ratio of 2.25 times which was lower than its 2.33 average for the previous six auctions. However, the drop of 10.1 bps in yield to 3.014% versus the previous six auction average was significantly less than the move in 3Y and 10Y Notes.

Equities

The U.S. broad market's strong performance more than made up for last week's five-day losing streak. Economic data showed muted inflation earlier this week that continues to support the accommodative Fed-led policy pivot that was confirmed this past weekend by Fed Chairmen Jerome Powell on 60 Minutes. Thursday's mixed performance was due to weaker housing data and uncertainty regarding a U.S.-China meeting that is expected to be delayed until at least April. Friday's rally was driven by a report from Chinese state media claiming the two largest economies have made "concrete progress" regarding trade and positive economic data which reversed sentiment. Investors continue to watch the Brexit negotiations as uncertainty remains. All eleven sectors ended in positive territory for the week led by Information Technology and Real Estate increasing by 3.6% and 2.9%, respectively. Industrials sector was the worst performer increasing 0.3% for the week.



Our View

In late 2017 and early 2018, the global economy was enjoying coordinated global growth thanks to years of extraordinarily accommodative monetary policy that allowed economies to heal from the devastation of the financial crisis. With growth moving in the right direction, global central banks slowly began the arduous process of normalizing monetary policy. Unfortunately, the global economy began to experience tightening financial conditions and escalating geopolitical risks, which triggered global growth to decelerate as 2018 came to an end. Moreover, the Organization for Economic Cooperation and Development (OECD) recently downgraded its 2019 global GDP forecast to 3.3% from 3.5%. One of the main contributors to the waning global growth predicament is the deteriorating Chinese economy. Chinese retail sales recently increased at the slowest pace in 7 years and industrial output grew at 5.3%, which is the weakest figure since 2009. An additional concern to Chinese officials is the recent 40 basis point rise in the unemployment rate, which brings the unemployment rate to the highest level in 2 years. Furthermore, Chinese officials recently met and lowered the annual growth rate target for 2019 to between 6 and 6.5%. To curb the economic slowdown, Chinese officials are loosening both fiscal and monetary policy. Some of the initiatives policymakers have taken include a 3% rate cut to the value-added tax for manufacturers, a push to encourage banks to lend to private companies that employ the most workers, temporarily halting its deleveraging campaign to clean up the shadow banking system and lifting government spending quotas to increase infrastructure investment. The market has taken notice of the efforts policymakers are making to stabilize growth and the Shanghai Composite is up roughly 20% since late December. It is our view that the recent policy measures Chinese officials have taken will help avoid a hard landing, however, a significant rebound in growth is not probable given the global risks and uncertainties that still abound.

COMING UP NEXT WEEK		Est.
03/19 FOMC Meeting		
03/19 Housing Starts	(Feb)	1.25M
03/21 Philly Fed Business Index	(Mar)	4.5
03/22 Existing Home Sales	(Feb)	5.10M

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