PEAPACK PRIVATE
Wealth Management

The Weekly
Economic & Market Recap

Peapack Private Wealth Management

January 17, 2020

1/17/2020		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	29,348.10	524.33	1.82	2.17	2.84	21.24
S&P 500	3,329.62	64.27	1.97	1.77	3.06	27.27
NASDAQ	9,388.94	210.08	2.29	0.93	4.64	33.47
S&P MidCap 400	2,095.55	44.18	2.15	1.70	1.58	18.00

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.56	Euro/Dollar	1.11	-0.17
5-Year	1.63	Dollar/Yen	110.18	0.56
10-Year	1.83	GBP/Dollar	1.30	-0.23
30-Year	2.30	Dollar/Cad	1.31	0.06

Source: Bloomberg/FactSet

What Caught Our Eye This Week

Equities are not the only asset class with recent strong performance. As supply of the commodity winter wheat appears set to decline, its price has crept up nearly 25-30% since September 2019 and is close to a 5-year high. There are several possible explanations for the decreased supply. Plantings of the crop are at their lowest level in the past 111 years. The last time United States farmers planted such little acreage of wheat, William Howard Taft was president and World War I was five years away. Corn and soybeans are more profitable crops, so farmers have allocated more acreage to them. Soggy weather that impacts the quality of the wheat harvest may have led to lower planting levels in the U.S. In addition, diminished production in Australia due to drought and wildfires, a proposal to limit Russian exports of the crop this year, and a strong dollar are also affecting wheat availability. Despite slight declines after the signing of the Phase One trade agreement this week, soft red winter wheat (Chicago wheat) still traded for $5.68 a bushel on the Chicago Board of Trade while hard red winter wheat (Kansas City wheat) traded for $4.83 a bushel. These prices have increased 25% and 33% percent, respectively, since September and will likely impact input costs for many of the consumer-packaged good companies that rely on the commodity to produce crackers, cookies, and cereal.

Economy

This week, the economic data centered around inflation statistics with the release of the producer price index and the consumer price index. On Tuesday, the CPI came out softer than expected, posting a 0.2% increase in December. The "core" CPI also increased, rising 0.11% and is now up 2.3% year-over-year. Energy prices increased by 1.4% and medical care prices by 0.6%. Over the past seven months, there has been a noticeable slowdown in the "core" index, especially when examining the data in three-month intervals. The PPI was reported on Wednesday and displayed a modest increase of 0.1% in December, which was a bit softer than consensus expectations. The "core" PPI also increased by 0.1% and is now up 1.1% year-over-year. Energy prices increased by 1.5% and gasoline prices by 3.7%. Finally, on Thursday, retail sales figures posted a 0.3% gain in December, which was in line with expectations, but there were downward revisions to October and September figures. Retail sales are now up 5.8% year-over-year, and in December, 12 out of 13 industries reported growth.

Fixed Income/Credit Market

The demand for tax-exempt municipal bonds has not abated in 2020. While rates across the U.S. Treasury (UST) curve remain at historically low levels, investors continue to seek alternative ways to pick up incremental yield. Relative value in terms of the muni to UST ratio is certainly more attractive ten years and beyond versus shorter-dated maturities. The Bloomberg AAA 10-year muni index ratio is currently at 72.5% of UST whereas short-term bonds 1 – 3 years are 57% to 58.2% of like duration Treasuries. On Thursday, the 2-year maturity for a NJ AA- serial debt deal priced at a 1.05% yield which equates to 1.95% on a taxable-equivalent basis for New Jersey residents in the highest tax bracket. With the 10-year U.S. Treasury trading at roughly 1.83%, investors can cautiously add credit exposure, decrease duration risk, and pick up 12 basis points in yield by investing in NJ munis.

Equities

Domestic equities posted strong gains this week with the Dow Jones Industrial Average and the S&P 500 breaking through the psychologically important levels of 29,000 and 3,300, respectively. On Monday, investors were relieved to see the geopolitical tensions of recent weeks in the Middle East continue to abate. Furthermore, President Trump and China's Liu He signed the highly anticipated Phase One U.S.-China trade deal at the White House on Wednesday. These developments, combined with some favorable U.S. economic data and fairly well-received bank earnings, helped push stocks to record highs throughout the week. According to FactSet, for Q4 2019, the S&P 500 is expected to post year-over-year revenue growth of 2.6%, but earnings are expected to decline 2.0%. Five sectors are predicted to report year-over-year earnings growth, led by the utilities and financials sectors. The largest declines are expected to be in the energy and consumer discretionary sectors.

Our View

Since 2018, the global economy has been hindered by the expansive ramifications of the trade war between the U.S. and China. Over the previously mentioned timeframe, global trade has declined, tariffs have been implemented, supply chains have been rerouted, manufacturing has suffered, business confidence has plummeted and monetary policy has eased. A nascent resolution to the trade war became official this week when Phase One of the deal was signed. As part of the agreement, the U.S. has arranged to cut in half the 15% tariff rate on $120 billon of Chinese imports and not place a 15% tariff on $150 billion of primarily consumer goods, which was scheduled to go into effect last month. The U.S. will still enforce the 25% tariff on $250 billion of Chinese imports. In return, the Chinese have agreed to increase its purchases of U.S. goods and services by $200 billion over the next two years above a 2017 base year. China has also committed to crack down on the theft of American technology and will offer greater access to its capital markets. The trade war, which on the surface appeared like it was predicated on the massive trade imbalance between the U.S. and China, was actually due to China's rapid growth over the last four decades by stealing and assimilating foreign technology and subsidizing various industries. With the Chinese economy growing at its slowest pace in three decades and unruly protests in Hong Kong, Chinese leaders are encouraged to see positive progress on the trade front. Here in the U.S., the Phase One trade deal should only boost 2020 GDP growth modestly, but it will alleviate a great amount of uncertainty. In terms of an enforcement mechanism, the U.S. will be able to punish China with additional tariffs or other measures within 90 days if officials decide that China has violated the terms of the agreement. To have Phase One of the trade deal signed is certainly a step in the right direction, however, the scope of the agreement is rather narrow. A Phase Two agreement will most likely not happen until after the U.S. presidential election and will tackle issues that will be much more difficult for China to agree upon.

COMING UP NEXT WEEK		Est.
01/22 Existing Home Sales SAAR	(Dec)	5,430K
01/23 Leading Indicators SA M/M	(Dec)	0.10%
01/24 PMI Composite SA (Prelim)	(Jan)	53.8R
01/24 Markit PMI Manufacturing SA (Prelim)	(Jan)	52.8
01/24 Markit PMI Services SA (Prelim)	(Jan)	52.9

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