The Weekly

Economic & Market Recap

Peapack-Gladstone Bank, Peapack Private Wealth Management

March 22, 2019

As of 03/22/2019		Wk Net	Wk %	Div	YTD %	12 Mos %
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	25,502.32	-346.55	-1.34	2.28	9.32	6.45
S&P 500	2,800.71	-21.77	-0.77	1.96	11.72	5.94
NASDAQ 100	7,326.06	19.07	0.26	1.06	15.74	9.63
S&P MidCap 400	1,854.99	-40.87	-2.16	1.73	0.00	0.00
Russell 2000	1,505.92	-47.62	-3.06	1.52	0.00	0.00

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	2.31	Euro/Dollar	1.13	-0.12
5-Year	2.24	Dollar/Yen	109.91	-1.41
10-Year	2.44	Sterling/Dollar	1.32	-0.59
30-Year	2.87	Dollar/Cad	1.34	0.60

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

The Saudi Arabian stock exchange, Tadawul, is the 24th largest among the 67 members of the World Federation of Exchanges and is the dominant market in the Gulf Cooperation Council. The Exchange is the 7th largest amongst its emerging market peers. Beginning this week, the Tadawul will be included in the FTSE Russell Emerging Markets and the S&P Dow Jones Emerging Markets indices. Beginning in June, it will be included in the MSCI Emerging Markets Index. This is a significant boost for the country and a reward for the Saudi authorities' reform efforts. The Saudis have taken measures to open their market to foreign investors and instituted new clearing and settlement processes as well as rule changes to allow short selling and securities lending. The inclusion in these emerging markets indices should bring billions of dollars into the country's stock market as the kingdom seeks to diversify away from oil. The implementation into the indices will take place in tranches through the rest of the year, and when completed, it is estimated that Saudi Arabia will represent 2.7% of the FTSE Emerging Index and 2.6% of the MSCI Emerging Markets Index.

Economy

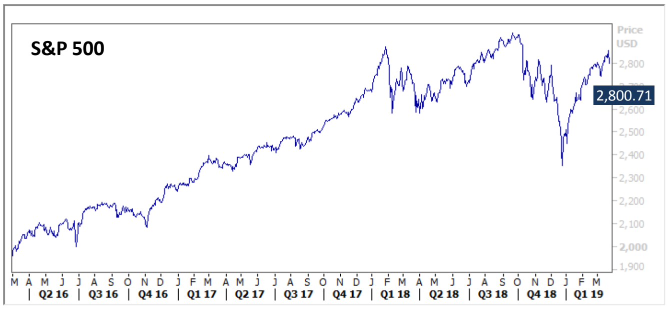
It was an uneventful week for economic data, and the main focus was on existing home sales data, which was released on Friday. These figures surged to the upside by 11.8% to 5.51 million units at an annual rate. This is the highest level in 11 months, but overall existing home sales are down 1.8% year-over-year. Over the next few months, there could be payback for this gaudy figure, but it appears lower mortgage rates have served as a catalyst, since the Federal Reserve signaled a pause in raising interest rates. In other news this week, the Markit PMI for the manufacturing survey declined from 53.0 to 52.5, hitting its lowest level since June of 2017. The Markit PMI for the services survey also dropped, decreasing to 54.8 for the first three weeks of March. These two PMI surveys will report final figures on April 1st and April 3rd. Finally on Thursday the Philadelphia Fed manufacturing survey increased from -4.1 in February to 13.7 in March. The underlying details were mixed, with the shipments index being the most positive component.

Fixed Income/Credit Market

On Wednesday, the statement from the FOMC meeting took on a dovish tilt signaling that there will not be any further rate hikes in 2019, one hike in 2020, and no hikes in 2021. Additionally, the Fed issued new guidance on the projected runoff and future composition of the Fed's balance sheet. In May, U.S. Treasury (UST) runoff caps will decrease from $30 billion a month to $15 billion. Furthermore, UST runoff will end completely in September. Agency mortgage-backed securities (MBS) runoff caps will remain at $20B a month until October when any Agency MBS and Agency debenture proceeds less than $20B will be reinvested in UST while excess proceeds will be reinvested in Agency MBS. Since the Fed's announcement, interest rates across the U.S. Treasury curve from 6-month Bills out to 30-year Notes have decreased anywhere from 3.6 basis points (bps) to 18.6 bps. Meanwhile yields on one, two, and three-month Bills have increased 2.0, 1.8, and 0.2 bp, respectively. Today the spread between the 3-month Bill and 10-year Note inverted for the first time since 2007 and is currently trading at -1.0 bps.

Equities

Equity markets were relatively calm early in the week in anticipation of the Federal Reserve's FOMC meeting on Wednesday. Some conflicting news regarding US-China trade talks surfaced on Tuesday. The Wall Street Journal reported that the two countries are in the final stages of trade talks and are hoping to reach a deal by the end of April; however, later in the day, Bloomberg released a report stating that China was "pushing back against American demands in trade talks." On Wednesday, the Federal Reserve left rates unchanged and released a more dovish policy statement. Equities initially reacted positively after the release, but they erased all gains in the last hour of trading. Stocks rallied the following day on the back of favorable economic data and a lift in technology shares. Equities gave up all their gains for the week on Friday after the S&P 500 plunged 1.90%. The selloff was triggered by disappointing European PMI numbers which increased already elevated concerns over a global economic slowdown. Financials was by far the worst performer (-4.85%) and consumer discretionary was the best performer (+1.16%) this week.



Our View

The Federal Reserve lowered rate expectations again regarding the fed funds rate. The "dot plot", which shows the projections of the members of the rate-setting Federal Open Market Committee, indicates the current level of interest rates is appropriate. Fed Chair Powell said he believes that the Fed has failed to achieve its 2% inflation target, and suggested that inflation expectations may be at the margin shifting lower. Global interest rates reset lower based on the announcement. Rates have been drifting lower since early November as evidence has mounted that the global economy is materially slowing. Equities have rallied to a degree based on the appearance of some thawing of positions in the trade talks between the U.S. and China. But from our perspective, most of the recovery in stock prices has been more directly related to the dramatic reversal toward a dovish posture by the Fed. Much of the good news has been priced into valuations. The forward price-to-earnings multiple of the market has moved sharply higher this year and is now 16.4 times. Earnings growth is slowing markedly as the global economy downshifts and it is possible that margin pressure may further impact the prospects for earnings. Although the risk metrics that we follow closely are not signaling extreme caution, investors need to pay attention to a few notable risks (such as Brexit). On the positive side of the equation, equity valuations are being supported by very low real interest rates and monetary policy that will remain very simulative into 2020. The Fed's balance sheet would will be roughly $3.5 trillion in September when the runoff ends, which is still a hefty 17% of GDP. Real interest rates are remarkably low compared to the end of the Fed's last tightening cycle (0.25% vs 2.75%), which is constructive for equity risk premiums.

COMING UP NEXT WEEK		Est.
03/26 Housing Starts	(Feb)	1.235M
03/26 Consumer Confidence	(Mar)	132.0
03/29 U Mich Sentiment Final	(Mar)	97.6

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