Peapack Private Wealth Management

May 31, 2019

As of 05/31/2019		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	24,815.04	-770.65	-3.01	2.36	6.38	1.64
S&P 500	2,752.06	-74.00	-2.62	2.03	9.79	1.74
NASDAQ 100	7,127.96	-173.01	-2.37	1.11	12.61	2.30
S&P MidCap 400	1,810.50	-52.33	-2.81	1.82	8.87	-6.98
Russell 2000	1,465.49	-48.62	-3.21	1.59	8.67	-10.29

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	1.92	Euro/Dollar	1.12	-0.36
5-Year	1.91	Dollar/Yen	108.26	-0.97
10-Year	2.13	Sterling/Dollar	1.26	-0.57
30-Year	2.57	Dollar/Cad	1.35	0.53

Source: Thomson Reuters & Bloomberg

What Caught Our Eye This Week

The U.S.-China trade war has dramatically impacted the financial markets this month. China is now intimating that it may retaliate against the United States by restricting the sale of rare earth minerals to this country. Rare earths are a group of 17 minerals that are necessary for the manufacturing of many advanced products including high tech and aerospace components. Rare earths are critical in the creation of turbine blades and jet engines, electric vehicles, batteries, mobile phones and other electronics, oil and gas drilling, and military equipment, among others. China mines, processes and exports approximately 96% of all the world's rare earths, and Australia is a very distant secondary supplier in the field. The United States is keenly aware of its strategic vulnerability, and there are three companies in this country that are in the process of planning or constructing processing facilities. One facility is scheduled to begin the production of two minerals in 2020, and two other companies have plans to be operational in about three years. In 2010, China demonstrated that it was willing to use rare earths as a bargaining cudgel by cutting off Japan's supplies in a territorial dispute, causing the island nation to back off on its demands. In anticipation of a possible rare earth supply disruption, the minerals' global index has risen by 49% over the past four months.

Economy

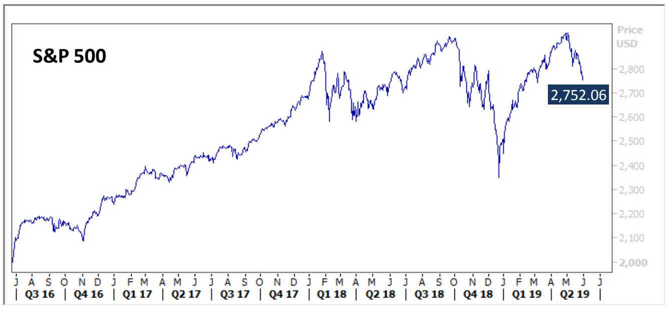
The economic headliner this week was Thursday's report on first quarter real GDP. This was the second look at Q1 GDP and growth was revised downward from 3.2% to 3.1%. Business investment, inflation and corporate profits were all lower the second-time around. Real gross domestic income, an alternative measure of overall economic activity to GDP, was lackluster at 1.4%. Business spending on equipment actually contracted last quarter. When excluding trade, inventories and government spending, GDP was +1.3%, the weakest growth since Q2 of 2013. Nonresidential fixed investment rose at a 2.3% annual rate, but less than the earlier estimate of 2.7%. The one bright spot was consumer spending which was revised up to +1.3%. On Tuesday, we were pleased to see consumer confidence numbers advance to 134.1, easily beating expectations and reaching the highest level since last November. Finally, on Friday, personal income increased by 0.5% and personal consumption advanced by 0.3% during the month of April. Disposable personal income also rose, gaining 0.4%.

Fixed Income/Credit Market

May was a volatile month for U.S. Treasury yields which decreased across the entire curve as much as 36.7 basis points (bps) at the 10-year tenor. The 10-year U.S. Treasury Note Volatility Index (TYVIX) increased 41.9% during May and is trading more than 3 standard deviations above its one-year mean. Similarly, the MOVE Index (Merrill Lynch Option Volatility Estimate) which is a yield curve weighted index of volatility on 1-month Treasury options is trading just shy of 2 standard deviations above its one-year mean. The interest rate rally month-over-month flattened the spread between the 2-year and 10-year tenors an additional 2.9 bps to 20.7 bps. Furthermore, the spread between the 3-month and 10-year tenors decreased 29.2 bps, inverting the curve and closing the week at -20.6 bps. The benchmark 2-year and 10-year U.S. Treasury yields ended May at 1.93% and 2.14%, respectively.

Equities

Investors' risk-off sentiment sent stocks lower this week as they fled to safe haven assets such as gold and U.S. Treasuries. The S&P 500 has declined over 6.5% after setting all-time highs in late April/early May. Investors are becoming increasingly concerned over the U.S. Treasury yield curve which has been inverted for three consecutive weeks. Furthermore, on Thursday night, President Trump unexpectedly announced that the U.S. would impose a 5% tariff on all imports from Mexico effective June 10th. This news sent equities into a sharp selloff on Friday as the S&P 500 ended the day down over 1.3%. In an environment with heightened U.S.-China trade tensions, slowing global economic growth, geopolitical uncertainty and an inverted yield curve, it is not surprising that stocks have been declining recently.



Our View

May has been a challenging month for financial markets, especially for equity investors, as global growth expectations continue to ebb lower. Recent reports on durable goods orders and the purchasing managers' index suggest a meaningful soft patch in the U.S. industrial economy. Worry over the global economy has been exacerbated by the negative tone in recent trade rhetoric. Given the hardening trade positions with escalating retaliatory threats, it appears that the relationship between Washington and Beijing is souring rapidly. The risk-off sentiment has caused a minor correction in equities and has pressured Treasury yields lower. The yield on the 10-year Treasury has declined almost 50 basis points over the last six weeks as investors seek safety. Money flowed from corporate bonds into higher quality fixed income as investors anticipate spread-widening from a weakening economy. Demand for Treasuries is also coming from profit-taking in equities. The bond market is suggesting the economy is vulnerable to a more pervasive slowdown. Fed funds futures are now pricing in three rate cuts from the Fed by mid-2020. President Trump increased the market's angst when he opened a new front in the trade war. Trump tweeted on Thursday evening saying the U.S. would impose a tariff on all imports from Mexico. The rate of the tariffs would be ratcheted higher unless Mexico took substantive action to stop the flow of illegal aliens. The U.S. imported $346.5 billion worth of goods from Mexico in 2018, so this would have a meaningful impact. A rapid escalation of protectionism against one of our largest trading partners when incoming data already suggests that economic activity is materially slowing is a concern. The ultimate effect on the market would likely be weaker earnings growth and PE multiple contraction in equity indexes. If the Mexican tariffs do go into effect, certain industries that built manufacturing facilities and supply chains based on rules established under NAFTA will be significantly impacted. The automotive industry, for example, would be especially hard hit.

COMING UP NEXT WEEK		Est.
06/03 ISM Manufacturing PMI	(May)	53.0
06/04 Factory Orders MM	(Apr)	-1.0%
06/05 ISM N-Mfg PMI	(May)	55.5
06/07 Non-Farm Payrolls	(May)	180k

For more information about our solutions: http://peapackprivate.com