



3/19/2021		Wk Net Change	Wk % Change	Div Yield	YTD % Change	12 Mos % Change
STOCKS	Close					
DJIA	32,627.97	-150.67	-0.46	1.87	6.60	62.43
S&P 500	3,913.10	-30.24	-0.77	1.48	4.18	62.41
NASDAQ	13,215.24	-104.63	-0.79	0.70	2.54	84.81
S&P MidCap 400	2,614.15	-32.19	-1.22	1.23	13.33	98.41

TREASURIES	Yield	FOREX	Price	Wk %Change
2-Year	0.16	Euro/Dollar	1.19	-0.24
5-Year	0.88	Dollar/Yen	108.86	-0.12
10-Year	1.73	GBP/Dollar	1.39	-0.17
30-Year	2.44	Dollar/Cad	1.25	0.14

Source: Bloomberg/FactSet

What Caught Our Eye This Week

The Centers for Disease Control and Prevention still advises against travel and the Transportation Security Administration estimates that less than half as many people are passing through U.S. airports as did in 2019. After the coronavirus pandemic nearly halted travel last spring (a week ago, domestic air travel was 55% below its pre-pandemic levels and international travel is down 71%), there are some signs that domestic leisure travel is picking back up. With the number of new Covid-19 cases dropping and distribution of vaccine doses increasing, U.S. domestic bookings have seen progressive growth every week since the beginning of the year. Bookings have increased from 42% of 2019 levels in early January to 64% of 2019 levels in the first week of March, according to data from ForwardKeys, a travel-analytics company. Certain states, including New York and Connecticut, have relaxed quarantine rules for inbound travelers. Last weekend, airport volumes hit their highest level in a year and airline executives are becoming increasingly confident of a recovery in air travel. Many are estimating that airlines may be able to stop bleeding cash this month.

Economy

The most anticipated report this week was the retail sales report, which was released on Tuesday. Retail sales dropped 3.0% in February which was well below consensus expectations. January retail sales were revised upward from +5.3% to 7.6%. The weakness in February is probably due to severe winter storms and supply chain disruptions and also some payback for an exceptionally strong January. Fiscal stimulus is definitely adding purchasing power to households with the release of \$600 checks in January and \$1400 checks on March 17th. The \$1400 checks will coincide with broadening vaccine distribution and warmer weather. Overall, retail sales are up 6.3% year-over-year with non-store retailers leading the way (+25.9%). In other news this week industrial production figures disappointed, posting a 2.2% decline in February. Manufacturing output dropped 3.1% and overall capacity utilization fell to 73.8%. Finally, on Wednesday monthly housing starts posted a 10.3% decline in February to 1.42 million units at an annual rate. Over the past twelve months, housing starts are down 9.3%.

Fixed Income/Credit Market

Jim Vogel of FHN Financial in a recent report highlighted the remarkable frequency of a decline in U.S. Treasury yields over a six-month horizon following sharp sell-offs. The observation focused on the most dramatic moves in the benchmark 10-year Treasury, however, when considering all tenors Jim noted the same pattern held true. Jim's takeaway was, "Six months after the worst point of a sell-off, yields average a decline of 9% for the 13 worst periods in the last two decades". Year-to-date, the 10-year U.S. Treasury has increased sharply by 81 basis points (bps) from roughly 0.92% to 1.73%. Utilizing Jim's observation to run a total return analysis on the 10-year Treasury, a 9% decline would drop the 10Y yield about 14 bps to 1.59%. Such a move would provide 10-year Treasury investors with a total return of 5.3%. Currently, Bloomberg's forward curve matrix is forecasting a 15 bp increase in the 10-year Treasury six months forward which would provide investors with a small positive return of 0.08%.

Equities

Domestic equities posted modest declines this week on the back of continued upward movement in interest rates. On Monday, reports noted that the Biden administration is planning the first major federal tax hike in nearly three decades to help pay for key economic initiatives such as an infrastructure bill. More details on the infrastructure plan may come next week when Transportation Secretary Pete Buttigieg testifies before the House Transportation and Infrastructure Committee. The main focus for investors this week was the Federal Reserve meeting on Wednesday. The Fed continued to show no rate hikes through 2023 and reiterated it will maintain its current pace of asset purchases until it sees substantial further progress on employment and inflation goals. The market appeared to view the meeting favorably as equities rallied and pushed the S&P 500 to a new all-time closing high. The following day, stocks sold off after interest rates backed up with the 10-year U.S. treasury briefly trading above 1.75%. Communication services outperformed this week gaining 0.54%, while energy severely lagged declining 7.66% as oil prices dropped.



Our View

A highly anticipated market moving event occurred on Wednesday when the FOMC concluded their two-day meeting with the release of an updated monetary policy statement, summary of economic projections (SEP) and press conference. Even with the recent rapid steepening of the U.S. Treasury yield curve, the FOMC maintained its policy stance and noted "indicators of economic activity and employment have turned up recently, although the sectors most adversely affected by the pandemic remain weak." There is little doubt that inflation is set to rise in at least the near-term and the Fed increased its projection for core PCE inflation to 2.2% in 2021 from 1.8% back in December. The uptick in the inflation projection is mainly due to the \$1.9 trillion fiscal stimulus package that was recently passed; however, the Fed largely feels that the inflation boost from the stimulus will be transitory as core PCE is expected to fall 20 basis points to 2.0% in 2022. Moreover, while the recent fiscal stimulus package will have the potential to pull forward the recovery, the Fed does not predict that it will materially change the medium-term economic outlook. The Fed is extremely concerned with the labor market and the February unemployment rate of 6.2% is deceiving as many eligible workers have left the labor force. Furthermore, if the pre-pandemic labor force participation rate was applied to February's employment statistics, the unemployment rate would be closer to 9.0% and is a far distance from the Fed's maximum employment objective. Thus, the dovish policy stance by the Fed is justified even though GDP is expected to reach 6.5% this year. The Fed policy makers have also committed to be reactive as opposed to proactive when it comes to dealing with rising inflation and they feel comfortable that they have the necessary tools to deal with elevated inflation. Moreover, they are willing to have the economy run hot for a period of time as long as financial conditions do not deteriorate, in order to effectuate a more inclusive recovery.

COMING UP NEXT WEEK		Consensus	Prior
03/22 Existing Home Sales SAAR	(Feb)	6,515K	6,690K
03/23 New Home Sales SAAR	(Feb)	880.0K	923.0K
03/24 Durable Orders SA M/M (Preliminary)	(Feb)	1.0%	3.4%
03/25 GDP SAAR Q/Q (Final)	(Q4)	4.1%	4.1%
03/26 Personal Consumption Expenditure SA M/M	(Feb)	-0.30%	2.4%
03/26 Personal Income SA M/M	(Feb)	-7.2%	10.0%
03/26 Michigan Sentiment NSA (Final)	(Mar)	83.5	83.0

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