PEAPACK PRIVATE
Wealth Management

The Weekly
Economic & Market Recap

August 14, 2020

8/14/2020		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	27,931.02	497.54	1.81	2.33	-2.13	6.28
S&P 500	3,372.85	21.57	0.64	1.79	4.40	15.26
NASDAQ	11,019.30	8.32	0.08	0.78	22.81	37.46
S&P MidCap 400	1,949.56	11.03	0.57	1.80	-5.50	2.96

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.15	Euro/Dollar	1.18	0.34
5-Year	0.30	Dollar/Yen	106.45	0.54
10-Year	0.71	GBP/Dollar	1.31	0.44
30-Year	1.45	Dollar/Cad	1.32	-0.99

Source: Bloomberg/FactSet

What Caught Our Eye This Week

Last week tropical storm Isaias battered New Jersey, bringing high winds, lightning, severe rain, and power outages. On Monday, a tornado and derecho struck Illinois and Iowa, respectively, causing tremendous damage and leaving thousands more without power. Amidst the ongoing conversation about improving infrastructure throughout the United States, many believe our nation's electrical grid may be the most neglected piece of our infrastructure. At present, the Department of Energy estimates the U.S. electric grid to be 100+ years old. The electricity it provides is essential to our daily lives, powering hospitals, schools, retirement communities, water treatment centers, and households. Modern air conditioning and computing power place higher demands on the grid and the prevalence of above ground transmission lines have left it vulnerable to challenges presented by extreme weather. In 2019 alone, 47 large-scale power outages (defined as events that affect 50,000 customers for 1+ hours) occurred and directly impacted 6 million customers. While one incident was attributed to a natural disaster, the remainder were caused by severe weather events. Microgrids, self-generators and declining costs for solar, wind, and eventually hydrogen storage systems offer potential solutions to change the old utility model. The "grid" may look different (and more decentralized) in the future.

Economy

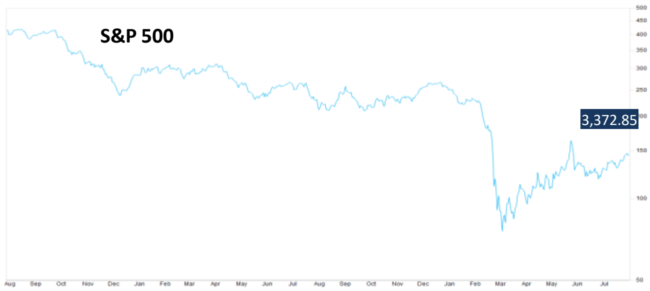
The economic headliner this week was the retail sales report, which was released on Friday. Retail sales increased 1.2% in July, which was less than analysts had expected. Gas station sales increased by 6.2%, and sales at electronics/appliance stores surged 22.9%. The "control" category, which excludes food service, autos, gas and building materials advanced by 1.4%. Overall 9/13 major categories reported gains, and at this point retail sales are 1.7% higher than the February level. In other news this week the consumer price index data showed the CPI and the core CPI increasing by 0.6% in July. The core also advanced in June (+.24%), so these two gains are the largest month to month increase since January 1991. The core CPI is now up 1.6% year-over-year. On Tuesday the producer price index report showed a healthy increase of 0.6% in July, as energy prices surged 5.3%. The core PPI also gained, advancing by 0.5% and is now up 0.3% year-over-year. Finally, the JOLTS report (job openings and labor turnover survey) showed 5.9 million job openings in June and the "quits" rate rising to 1.9%.

Fixed Income/Credit Market

U.S. Treasuries (UST) bear steepened week-over-week, meaning that longer-dated yields increased at a faster pace than short-term yields. Better than expected U.S. economic data during the week combined with an increase in auction supply for the 10-year Note and the 30-year Bond put upward pressure on interest rates. The benchmark 10-year Treasury Note closed Friday up 14.7 basis points (bps) from the prior week while the 30-year Bond increased 21.1 bps week-over-week. The march higher in yields increased the spread between the 2-year and 10-year (2/10 spread) tenors 12.9 bps to 56.4 bps. The steepening was even more pronounced between the 5-year and 30-year (5/30 spread) tenors which saw a spread increase of 14.5 bps to approximately 115 bps. The 2/10 spread is now trading 1.2 standard deviations above its year-to-date (YTD) average of 40.2 bps. Meanwhile, the 5/30 spread is trading 1.3 standard deviations above its YTD average of 90.3 bps.

Equities

Domestic equities continued their upward trajectory and posted a third consecutive week of gains. The bullish narrative continues to focus on better-than-expected Q2 earnings, recent strong economic data, vaccine optimism, and 2020 earnings revisions moving higher. According to Zacks, full year 2020 earnings for the S&P 500 are currently expected to be down 21.3% which is better than the expectation of a 24.1% decline a few weeks ago. Other items of note include the stalemate over the fifth coronavirus relief bill. There are concerns that the negotiations between the White House and Democrats could drag into September, but, according to FactSet, the market continues to expect a bipartisan deal totaling $1.5 trillion. On Wednesday and Thursday, the S&P 500 pushed above its all-time closing high intraday but ultimately finished both days just below that level. Cyclical stocks outperformed on the week with industrials up 3.10% while utilities lagged posting a 2.08% decline.



Our View

There are many aspects of ordinary life that have been made surreal by the coronavirus. Playoff hockey in August and major league baseball games being played in empty stadiums are two prime examples. Other elements may not necessarily be surreal, but they are not what they appear. For example, core Consumer Price Index (CPI) in July had the largest monthly rebound since 1991, and the YoY reading jumped from 1.2% to 1.6%. The pickup in core CPI was driven by a rebound in spending categories that were especially hard hit in the second quarter. The dis-inflationary impact of the demand destruction from the self-imposed economic shutdown is starting to unwind, but prices remain well below their pre-pandemic levels. We would expect inflation readings to settle down soon. Recent changes in Disposable Personal income (DPI) can, however, be classified as both surreal and not what it appears. DPI is a vital driver of consumer spending, which is roughly 70% of the U.S. economy. Generally, DPI is a function of the size of the labor market and job growth. So, even though we lost 22.2 million jobs from February to April, with the massive collapse of the economy (GDP -32.9% in Q2), DPI exploded higher in the second quarter. DPI averaged $1.39 trillion per month in Q1 but averaged almost $1.5 trillion per month in Q2. It was the largest increase ever and was the result of a $258 billion increase in support payments from the Federal government. With the additional $600 weekly Federal unemployment benefits expiring at the end of July, short of new transfer payments from Washington, continuing the current pace of the economic recovery will be challenging given the income cliff faced by some consumers. Also, small businesses will perhaps be laying off some workers whose jobs were temporarily saved by PPP loans, as the mandate which requires employers to maintain staffing levels for loan forgiveness is lapsing. This will slow the recovery of the labor market and will be a drag on disposable personal income.

COMING UP NEXT WEEK		Consensus	Prior
08/17 Empire State Index SA	(Aug)	18.0	17.2
08/18 Housing Starts SAAR	(Jul)	1,250K	1,186K
08/20 Initial Claims SA	(Aug)	963.0K	963.0K
08/20 Leading Indicators SA M/M	(Jul)	1.0%	2.0%
08/21 Markit PMI Manufacturing SA (Prelim)	(Aug)	52.0	50.9
08/21 Existing Home Sales SAAR	(Jul)	5,450K	4,720K

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