Peapack Private Wealth Management

June 12, 2020

6/12/2020		Wk	Wk		YTD	12 Mos
STOCKS	Close	Net Change	% Change	Div Yield	% Change	% Change
DJIA	25,605.54	-1505.44	-5.55	2.55	-10.28	-1.70
S&P 500	3,041.31	-152.62	-4.78	1.99	-5.86	5.39
NASDAQ	9,588.81	-225.27	-2.30	0.90	6.87	22.58
S&P MidCap 400	1,759.91	-151.24	-7.91	1.99	-14.69	-7.56

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.20	Euro/Dollar	1.12	-0.59
5-Year	0.34	Dollar/Yen	107.33	-2.20
10-Year	0.71	GBP/Dollar	1.25	-1.46
30-Year	1.46	Dollar/Cad	1.36	1.49

Source: Bloomberg/FactSet

What Caught Our Eye This Week

The Organization for Economic Co-operation and Development (OECD) released its Pension Funds in Figures report amidst the return of volatility this week. Following a decline in 2018, pension fund assets soared during 2019 as a result of strong investment performance, growing by 13.9% to $32.3 trillion in the OECD area and by 11.3% to $734.8 billion in other reporting jurisdictions. Pension funds held more than 75% of their aggregate investment allocations in equities and bonds in more than half of the reporting jurisdictions at the end of 2019. These allocations left them heavily exposed to the tumult in global financial markets during the first quarter. Pensions lost an estimated $2.5 trillion due to market drops during the period ending March 31st. Longer lifespans post retirement and lower growth in wages and benefits are increasing pension plan obligations. The increased pension liabilities are causing higher return targets and more aggressive investment allocations posing larger issues for central banks, financial markets and social infrastructure.

Economy

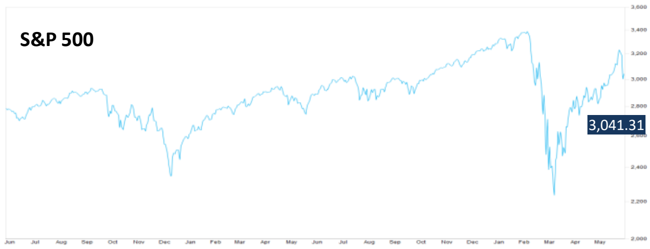
This week the economic data centered around inflation statistics with the release of the CPI and the PPI. On Wednesday the consumer price index posted a decline of 0.1% in May, and is now up 0.1% year-over-year. The "core" CPI dropped by 0.6%, and is now up 1.2% over the past twelve months. Energy prices declined by 1.8%, gas prices by 3.5% and apparel by 2.3%. Food prices rose 0.7% led by a surge of 10.8% in the beef index. The producer price index data was released on Thursday and registered an increase of 0.4% in May. Over the past 12 months, this metric is now down 0.8%. Once again, the food index led the way gaining 6% with meat prices exploding by 40.4%. The "core" PPI was down 0.1% and is now up 0.3% year-over-year. Earlier in the week the JOLTS report (job openings & labor turnover survey) showed the total number of separations decreasing by 4.8 million to 9.9 million in April. Total job openings decreased to 5.0 million, the "quits" rate dropped to 1.4%, and over the past twelve months there is a net employment loss of 13.9 million.

Fixed Income/Credit Market

The FOMC met on Wednesday and kept the policy rate unchanged with a target range of 0.00% to 0.25% as expected. The dot plot indicates that members of the Fed are not projecting a rate increase through 2022. Additionally, the Fed will continue buying U.S. Treasuries (UST) and mortgage-backed securities (MBS) at its current pace of approximately $80B and $40B per month, respectively. What caught the market by surprise was President Powell's post-statement press conference which was not only dovish but also insinuated that the road to economic recovery will be prolonged. Powell's comment to adjust asset purchases as needed ultimately drove yields lower and flattened the UST curve. Week-over-week interest rates were mixed with Treasury Bills higher as much as 1.8 basis points (bps) driven by added supply, while Treasury Notes decreased up to 21.4 bps. The spread between the 2-year and 10-year Treasuries (2/10) flattened 17.5 bps to 51.2 bps. The 2/10 spread is now trading approximately one standard deviation above its six-month mean of 37.2 bps.

Equities

Extreme volatility returned to the stock market this week and sent all three major domestic equity indexes sharply lower. Stocks started the week off strong with the Nasdaq Composite hitting a new all-time high and the S&P 500 turning slightly positive for the year. The upward trend in equities reversed over the next few days, and stocks posted their first three-day decline since early March. The quick shift in investor sentiment is largely attributable to a recent increase in coronavirus infections and hospitalizations in a number of US states and other countries, the Federal Reserve's cautiousness on the US economic outlook, and the potential for another round of fiscal stimulus to be smaller than many had expected. Most of the selloff occurred on Thursday where all three major indexes posted declines of over 5%. It was reassuring to see the equity market stabilize the day after such a steep decline with the S&P 500 gaining 1.3% on Friday. All sectors finished the week in the red with energy (-11.0%) and financials (-9.3%) being the relative underperformers.



Our View

Volatility made a comeback this week as indications of a second wave of COVID-19 infections coupled with the Fed's bleak summary of economic projections weighed heavily on risk assets. Moreover, the VIX Index, which is derived from price inputs based upon S&P 500 index options, surged 66% through the first four trading days of the week. Progress toward easing lockdowns across the U.S. is encountering headwinds as national health officials are warning about a second wave of infections popping up outside of the previous hot spots of New York and New Jersey. Furthermore, Texas, which has been pushing to ease the lockdowns imposed during the first round of infections, now finds itself experiencing a surge in COVID-19 cases. Unless a vaccine is developed or herd immunity is established, fully reopening the economy is going to be a long and iterative process. Historically it has taken on average nearly 11 years to bring a vaccine to market and the success rate is rather low, with only 6% of experimental vaccines making it to the finish line. It is refreshing to see that the medical community is already making great strides to combat COVID-19. Moreover, according to the World Health Organization, there are roughly 100 experimental vaccines under development. With that being said, the Director of the U.S. National Institute of Allergy and Infectious Diseases is optimistic that a vaccine could be available by the end of this year for use by healthcare professionals and those most vulnerable. There are various COVID-19 vaccine candidates in different phases of clinical trials and medical professionals are doing their best to balance the speed of development versus human safety. The lockdowns that were instituted due to the lack of a medical solution to COVID-19 caused an extraordinarily deep economic recession. High frequency economic data, like electricity consumption and restaurant reservation bookings, are slowly starting to turn the corner but they still have a long way to go. A medical solution is the key to a quicker recovery and it is evident that progress is being made.

COMING UP NEXT WEEK		**Consensus**	**Prior**
06/15 Empire State Index SA	(Jun)	-20.0	-48.5
06/16 Retail Sales SA M/M	(May)	8.5%	-16.4%
06/16 Industrial Production SA M/M	(May)	3.3%	-11.2%
06/17 Housing Starts SAAR	(May)	1,200K	891.0K
06/18 Philadelphia Fed Index SA	(Jun)	-20.0	-43.1
06/18 Leading Indicators SA M/M	(May)	1.3%	-4.4%

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