Peapack Private Wealth Management — March 20, 2020

| 3/20/2020 | | Wk | Wk | | YTD | 12 Mos |
|---|---|---|---|---|---|---|
| | | Net | % | Div | % | % |
| **STOCKS** | Close | Change | Change | Yield | Change | Change |
| DJIA | 19,173.98 | -4011.64 | -17.30 | 3.40 | -32.81 | -25.93 |
| S&P 500 | 2,304.92 | -406.10 | -14.98 | 2.63 | -28.66 | -18.63 |
| NASDAQ | 6,879.52 | -995.36 | -12.64 | 1.24 | -23.33 | -10.93 |
| S&P MidCap 400 | 1,257.86 | -288.89 | -18.68 | 2.87 | -39.03 | -33.77 |

| **TREASURIES** | Yield | **FOREX** | Price | Wk %Change |
|---|---|---|---|---|
| 2-Year | 0.34 | Euro/Dollar | 1.07 | -3.43 |
| 5-Year | 0.47 | Dollar/Yen | 111.34 | 3.90 |
| 10-Year | 0.85 | GBP/Dollar | 1.17 | -5.30 |
| 30-Year | 1.42 | Dollar/Cad | 1.44 | 2.62 |

Source: Bloomberg/FactSet

**What Caught Our Eye This Week**

Recent research from Nielsen shows consumers are changing their shopping behavior in ways that could shape future buying patterns. Nielsen identifies six thresholds of Coronavirus/Covid-19 concern – 1) pro-active health-minded buying, 2) reactive health management, 3) pantry preparation, 4) quarantined living preparation, 5) restricted living, and 6) living a new normal. We have witnessed a stark transition in the U.S. from normal activity during the virus' early days to government-imposed closures of schools, retail outlets, restaurants, sporting events, and other mass gatherings. Not surprisingly, individual consumer behavior has adapted accordingly to include higher usage of streaming entertainment, greater adoption of digital commerce, and gravitation toward online food delivery. These were all trends that were solidly in place long before the novel coronavirus existed. The real question remains, will people revert to previous patterns once the threat of the virus subsides or are some of these shifts permanent? The fear of loss from COVID-19 and its unprecedented impact on the global economy could be the catalyst that will shape our connected economy's future. While a lot will depend upon the virus' duration and the speed with which we are able to "flatten the curve", experts suggest that a broader embrace of ecommerce is here to stay.

**Economy**

The most anticipated report this week was the retail sales report, which was released on Tuesday. Retail sales declined 0.5% in February, which was well below consensus estimates. Overall sales dropped in 8/13 retail categories. Not surprising, non-store retail sales (online) increased by 0.7% and are now up 7.5% year-over-year. The all-important control category, which excludes food service, autos, gas, and building materials, was unchanged in February. Also, on Tuesday, the JOLTS report (job openings & labor turnover survey) showed 7.0 million job openings as of January 31st, 2020. The "quits" rate held steady at 2.3%, and the net employment gain over the past 12 months is a respectable 2.1 million. On Wednesday, monthly housing starts declined by 1.5% to 1.599 million at an annual rate in February. Single family starts increased by 6.7%, which is the fastest increase since 2007. Single family starts are now up 35.4% over the past year. Finally, on Thursday, weekly jobless claims were reported and showed a dramatic increase of 80,000 to 281,000 during the week ending March 14th. The four-week moving average is now at 232,000.

**Fixed Income/Credit Market**

The dash for cash by investors has caused a recent surge in municipal bond yields. For the week ended Wednesday March 18th, investors pulled $12.2B from municipal-bond mutual funds according to Lipper. Typically considered a safe-haven asset class, market participants are concerned about liquidity as the spread of COVID-19 puts pressure on the finances of some municipalities. The benchmark 10-year AAA Bloomberg Callable Curve is now trading at 2.87%, up from a one-year low of 0.798% as recently as March 9th and roughly 137 basis points (bps) above its one-year average. The 10-year AAA municipal bond ratio is currently at 209% of U.S. Treasuries (UST), roughly 6.5 standard deviations above the one-year mean of 83.2%. The move on the front-end of the muni curve has been equally as sharp. 1-year AAA municipal yields are close to parity with 10-year bonds at 2.83%, up from a one-year low of 0.47% also on March 9th and 168 bps above their one-year average. The 1-year AAA muni bond ratio is currently at 1,393% of UST.

**Equities**

Domestic equities experienced another week of intense selling pressure as investors continue to grapple with an overwhelming amount of uncertainties related to the coronavirus. Headlines throughout the week were dominated by the coronavirus outbreak and steps the U.S. government is taking to support the American population. Monday saw the S&P 500 experience its largest percentage decline since 1987 (-11.98%), even after the Federal Reserve dropped rates by another 100 bps to 0 – 0.25% over the weekend. Stocks rebounded on Tuesday, but the balance of the week was spent moving lower as the S&P 500 posted a new low of 2,305 on Friday. This was the worst weekly decline for the DJIA and the S&P 500 since 2008. Consumer staples was the relative outperformer while real estate was the largest laggard. Investors will be paying attention to a "phase 3" federal coronavirus relief package which centers around direct payments to U.S. citizens and is expected to be worth a total of $1.3 trillion. Approval for the package could come early next week.


**Our View**

On Thursday this week, the market finally broke an unprecedented string of nine consecutive trading days with swings up or down of greater than 4% in the equity market. The selling pressure has been extreme due to uncertainty caused by the coronavirus outbreak and undefined economic consequences. As a society, we have decided to prioritize containment of the virus over the economic impact. Travel bans and the shutdown of businesses deemed nonessential, coupled with consumer demand destruction has wreaked havoc across the entire country and has created a tremendous economic shock. The slope of the yield curve and the level of rates suggested that the market was already nervous about an aging bull market. The conditions were ripe for a correction of some magnitude, but obviously, a global pandemic was not expected to be the catalyst for a potential global recession and the end to the longest bull market in history. The speed of the market drawdown and the change in market expectations have been breathtaking. So, where do we go from here? Timing is always very difficult, but history can provide us with an idea of the sequencing of events to follow. After an event-driven crisis, the central banks act first and aggressively to provide liquidity and confidence in the durability of the financial system. That has already occurred, and we are likely to see additional action if necessary. This is followed by a painful period of indecision by governmental authorities that causes additional financial market turmoil; ultimately, corrective fiscal measures are taken that helps boost demand and confidence. We are still waiting for a comprehensive, cohesive set of fiscal policy steps to stabilize the economy and lift growth on the other side of the containment efforts. These fiscal policy tools will come. Typically, financial markets bottom soon after authorities have put in place sufficient economic safeguards. Investors need to maintain a long-term orientation and use normalized earnings to get comfortable with valuations. Smoothing out the cyclicality of earnings and applying an average multiple suggest there is more reward than risk for investors with a reasonable time horizon.

| COMING UP NEXT WEEK | | Est. |
|---|---|---|
| 03/24 New Home Sales SAAR | (Feb) | 740.0K |
| 03/25 Durable Orders SA M/M (Prelim) | (Feb) | -0.30% |
| 03/26 Initial Claims SA | (Mar) | 500.0K |
| 03/27 Personal Income SA M/M | (Feb) | 0.30% |
| 03/27 Michigan Sentiment NSA (Final) | (Mar) | 94.9 |

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