



4/9/2020		Wk	Wk	YTD	12 Mos
	Close	Net Change	% Change	Div Yield	% Change
STOCKS					
DJIA	23,719.37	2666.84	12.67	2.73	-16.89
S&P 500	2,789.82	301.17	12.10	2.18	-13.65
NASDAQ	8,153.58	780.49	10.59	1.06	-9.13
S&P MidCap 400	1,586.37	248.42	18.57	2.26	-23.10
TREASURIES	Yield	FOREX	Price	Wk %Change	
2-Year	0.22	Euro/Dollar	1.09	1.30	
5-Year	0.42	Dollar/Yen	108.51	0.00	
10-Year	0.73	GBP/Dollar	1.25	1.71	
30-Year	1.35	Dollar/Cad	1.40	-1.04	

Source: Bloomberg/FactSet

What Caught Our Eye This Week

The World Health Organization defines telemedicine as “healing from a distance”. Telemedicine gives individuals the freedom to receive diagnosis and treatment without needing an in-office appointment. A 2019 Kaiser Family Foundation survey found 82% of big employers included a telemedicine service in their health plans. That is an increase from 27% in 2015. Prior to the recent coronavirus outbreak, utilization of virtual doctor visits was estimated to be below 10%. In response to the COVID-19 outbreak, insurers are increasing access to telehealth and some will waive patients’ out-of-pocket costs if they utilize the virtual service. In mid-March the Federal Government expanded access to telemedicine services for Medicare patients. Prior to COVID-19, the Government had limited telemedicine to individuals in rural areas. In addition, the Centers for Medicare & Medicaid Services agency is now reimbursing Medicare patients across the country for telemedicine services. Further, the Department of Health & Human Services announced that video platforms such as FaceTime and Skype are temporarily acceptable for health care providers to use. As a result of the pandemic, virtual visits with doctors are becoming mainstream. It is estimated that telemedicine visits grew by 50% in March and are expected to reach 1 billion by year end.

Economy

This week, the economic data centered around inflation statistics and the overall collapse in demand. On Thursday, the producer price index posted a decline of 0.2% in March, and is now up only 0.7% year-over-year. This drop was led by a 16.8% decline in gasoline prices. The “core” PPI increased by 0.2% and is now up 1.4% year-over-year. The consumer price index data was reported on Friday and showed a decline of 0.4% in March, which was weaker than expected. The CPI is now up 1.5% year-over-year. Gasoline prices collapsed by 10.5%, airline fares by 12.6%, and lodging away from home declined by 6.8%. The “core” CPI dropped by 0.10%, which is one of the weakest readings on record. On Tuesday the JOLTS report (job openings labor turnover survey) showed 6.9 million job openings in February (not meaningful at the moment). The “quits” rate held steady at 2.3%, and the net employment gain over the past 12 months is a respectable 2.4 million. The University of Michigan consumer sentiment index was released on Thursday and the preliminary figure collapsed to an 8-year low of 71.0 in April. Also on Thursday, weekly jobless claims exploded by 6.6 million during the week ending April 4th. Over the past three weeks, jobless claims have increased by 16.8 million.

Fixed Income/Credit Market

The Bloomberg U.S. Financial Conditions Index continued to rebound this week since hitting a one-year low on March 24th of -6.34, significantly below a high of 1.00 on May 3, 2019. Currently at -3.71, the index gauges the level of financial stress in the marketplace as it pertains to the availability and cost of credit across U.S. money markets, bonds, and equity markets. A negative reading indicates tight lending conditions whereas a positive value is indicative of more accommodative access to capital markets. Another indicator of financial stress is the TED spread, which is the difference between 3-month Libor and 3-month T-Bill interest rates. A widening spread between the two benchmarks points towards elevated credit risk and a rising risk of default for corporate borrowers. The TED spread reached a one-year high of 151.2 basis points (bps) on March 26th but has decreased 39.4 bps to 111.8 bps. However, default risk is still a concern given that the average TED spread over a 5-year horizon is just 34.3 bps.

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Equities

Domestic equities posted strong gains with the S&P 500 recording its biggest one-week percentage increase since 1974 during a holiday-shortened trading week. Stocks rallied on signs that the coronavirus outbreak is peaking and leveling off in several hotspots across the globe. Furthermore, the recent aggressiveness in policy response from the White House and Federal Reserve have supported the bullish narrative. On Thursday, the Fed announced new and expanded programs to provide up to \$2.3 trillion in loans geared towards small and medium-sized businesses. These recent developments have investors hopeful for a reopening of the U.S. economy in the coming months. As of Thursday’s close, the S&P 500 is in bull market territory after rallying almost 25% from the lows reached on March 23rd. Next week kicks off Q1 2020 earnings season which will provide some insight on the severity of the coronavirus’ impact on corporations. According to Zacks, while the majority of earnings’ estimate reductions are concentrated in the 2nd and 3rd quarters, all four quarters of 2020 are expected to show earnings declines year-over-year (YoY). For Q1, S&P 500 earnings are expected to decline 8.6% YoY which is down from close to 4% growth that was expected in early January.



Our View

Risk assets performed extremely well this week as markets became encouraged by signs that the spread of COVID-19 may be decelerating. Lockdowns and social distancing appear to be working; however, the economic impact has been devastating. As of April 4th, weekly initial jobless claims rose by 6.6 million to bring the total over the past three weeks to just shy of 17 million. With respect to the service sector, Markit U.S. Services PMI, which was in expansionary territory back in January dropped precipitously to 39.8 in March. Also, the University of Michigan Consumer Sentiment Index declined dramatically to 71.0 in April from 89.1 one month prior and was the largest monthly drop on record. Although it has not been formally announced, it is quite apparent that an economic recession has begun. According to Bloomberg research, the duration of a recession matters more than its depth regarding equity market declines. Moreover, history suggests that the current sharp economic downturn can be contained to a degree if it is short lived. Unfortunately, we are dealing with a pandemic that has a forward path plagued with uncertainty. The U.S. government and central bank realized the severity of the situation and reacted rapidly. On top of all the fiscal and monetary measures taken to date, the Fed recently announced a new \$2.3 trillion lending program that will target cities and states along with small to midsized businesses. The goal of the recently enacted monetary stimulus is to stabilize the financial system, muffle volatility and keep municipalities and businesses solvent during the lockdown phase. On a different note, it is important from a portfolio perspective to keep a long-term focus. A study of monthly observations since 1950 shows that a portfolio’s risk profile tends to decrease as the holding period increases. During periods of volatility like the one most recently experienced, it can be difficult to hold the course and not deviate from the targeted asset allocation. But if liquidity needs, time horizon, tax situation, return expectations and risk tolerance have not changed, then staying the course from an investment perspective is the prudent thing to do.

COMING UP NEXT WEEK		Est.
04/15 Empire State Index SA	(Apr)	-30.0
04/15 Retail Sales SA M/M	(Mar)	-5.9%
04/15 Industrial Production SA M/M	(Mar)	-4.1%
04/16 Philadelphia Fed Index SA	(Apr)	-30.0
04/17 Leading Indicators SA M/M	(Mar)	-6.2%