Peapack Private
Wealth Management

The Weekly
Economic & Market Recap

Peapack Private Wealth Management

May 1, 2020

5/1/2020		Wk Net	Wk %	Div	YTD %	12 Mos %
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	23,723.69	-51.58	-0.22	2.73	-16.87	-10.79
S&P 500	2,830.71	-6.03	-0.21	2.14	-12.38	-3.91
NASDAQ	8,604.95	-29.57	-0.34	0.99	-4.10	6.29
S&P MidCap 400	1,590.48	40.11	2.59	2.22	-22.91	-19.30

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.20	Euro/Dollar	1.10	1.81
5-Year	0.35	Dollar/Yen	106.91	-0.49
10-Year	0.61	GBP/Dollar	1.25	1.66
30-Year	1.25	Dollar/Cad	1.41	-0.07

Source: Bloomberg/FactSet

What Caught Our Eye This Week

Despite investor concerns about deflation, the downward pressure on wages and prices as a result of high unemployment and excess capacity, statistics released by Nielsen this week suggest we are facing grocery inflation. In just the past week, prices have risen for fresh meat by 8%, eggs by 31%, cheese by 11%, and cow's milk by 10%. Prices have risen as farmers need to dispose of fresh food that they cannot get to market, such as potatoes and milk, and families face difficulty getting food. As recently as mid-April the cost of a dozen eggs had increased to $3, almost three times what it was both a month ago and a year prior. Whether due to soaring demand as consumers rush to ensure they have enough food or decreasing availability of products due to reduced production and difficulties with the supply chain (e.g. several meat processing plants have shut down temporarily due to Covid-19 infections), consumers can expect to see a more limited selection and higher prices for the intermediate future.

Economy

The economic landscape continues to be dominated by historic declines in just about every significant category. On Tuesday, the Conference Board consumer confidence index plummeted from 118.8 in March to 86.9 in April. The labor market differential (jobs plentiful/jobs are hard to get) dropped from 29.5 in March to -13.6 in April. The first report on Q1 real GDP was presented on Wednesday and GDP declined by 4.8% at an annual rate. Real consumer spending dropped by 7.3% and business fixed-investment by 8.6%. On the positive side, spending on non-durables surged by 6.9%. On Thursday, personal spending/personal income were reported with spending tumbling 7.3% and income losing 2.0% in March. The personal savings rate jumped from 8.0% in February to 13.1% in March. Also on Thursday initial jobless claims increased by 3.84 million during the week ending April 25th. This elevated mark is actually down 44% from the peak of 6.9 million touched during the week ended March 28. Finally, on Friday, the ISM manufacturing survey dropped from 49.1 to 41.5 in April. The new orders index plummeted to 27.1 and the production index declined to 27.5.

Fixed Income/Credit Market

On April 2nd the Federal Reserve began steadily tapering its daily purchase of U.S. Treasury securities from a peak of $75B/day in mid-March. On the final day of April, the FOMC's new target was $10B/day, down from $15B/day the prior week. Unlike 2013's taper tantrum, unwinding some of the quantitative easing (QE) instituted from the fallout of Covid-19, U.S. Treasury yields did not exhibit a rapid spike. In fact, during the month of April, benchmark U.S. Treasury notes decreased as much as 5.2 basis points (bps) at the 2-year tenor. The 10-year tenor decreased 3 bps month-over-month and traded within a 20 bp range of 0.57% to 0.77%. Between March 1st and April 22nd, the Fed's balance sheet grew approximately $2.37T according BMO. The difference this time around is that roughly 40% of the balance sheet growth came from the purchase of other assets such as Special Purpose Vehicle (SPV) Loans, U.S. Dollar swaps, and multiple lending facilities classified as 'Other'. The added layers of Fed accommodation may be keeping U.S. Treasury yields tame for the time being.

Equities

It was a choppy week for domestic equities, but the S&P 500 ended April up 12.7% – its largest one-month percentage gain since January of 1987. Some of the widely cited drivers behind the rally in stocks include improving coronavirus trends, hopes for an effective treatment against the coronavirus, plans to reopen the U.S. economy, and strong fiscal and monetary policy response. Early in the week, investors focused on the reopening of the U.S. economy as well as corporate earnings. Companies continue to pull their full-year guidance due to the uncertainty surrounding the magnitude and duration of the coronavirus outbreak. Furthermore, they continue to highlight cost reductions and other measures to boost liquidity. On Wednesday, the S&P 500 gained over 2.5% after a study on Gilead's remdesivir showed positive results in helping patients recover faster from Covid-19 than standard care. Stocks declined the following two days on somewhat disappointing takeaways from a few high-profile companies' earnings reports in addition to concerns over increasing tensions between the U.S. and China after President Trump noted that he could impose additional tariffs on them.

Our View

Despite horrible economic data last month, April proved to be a stellar month for equity investors. The rally off the March 23rd lows has been almost as breathtaking in speed as the roughly four-week bear market that preceded it. The equity market has rallied over 30% from the March lows through the end of April, and the S&P 500 was down only 9.9% on a year-to-date basis. Equity investors have been able to look beyond the output contraction of 4.8% in the first quarter as indicated by the GDP report released this week, and a second quarter that will be demonstrably worse. The equity market seems to be anticipating a V-shaped economic recovery with a sharp and strong economic lift in the second half of 2020. The massive liquidity that has been provided by both the Federal Reserve and the federal government is a logical justification for this optimism. On top of the CARES Act, which will provide $2.3 trillion in fiscal stimulus, the Federal Reserve has expanded its balance sheet by $2.4 trillion to over $6 trillion in only a few months. With current Congressional mandates, the Fed has the capacity to expand its balance sheet to $10 trillion if it feels the need to do so. To provide perspective on a $10 trillion Fed balance sheet, the entire U.S. economy is only slightly larger than $20 trillion. The Fed has traditionally acted as a "lender of last resort" and would provide liquidity to banks to encourage the extension of credit to the financial system. With the creation of the Primary Market Credit Facility and the Secondary Market Corporate Credit Facility, the Fed has the potential to act as a direct "lender of last resort," which extends its mandate not just to the problem of market liquidity, but to providing support for insolvent companies. The Fed cannot generally solve a solvency problem caused by a lack of revenues, at least not for any extended length of time. The massive fiscal and monetary stimulus will not resolve all the economic difficulties that lay ahead. There will be residual economic damage, and it is doubtful that the recovery will be V-shaped.

COMING UP NEXT WEEK		**Consensus**	**Prior**
05/04 Durable Orders SA M/M (Final)	(Mar)	-12.0%	-0.20%
05/04 Factory Orders SA M/M	(Mar)	-10.1%	0.0%
05/05 Markit PMI Services SA (Final)	(Apr)	27.0	27.0
05/07 Productivity SAAR Q/Q (Preliminary)	(Q1)	-5.8%	1.2%
05/08 Nonfarm Payrolls SA	(Apr)	-20,750K	-701.0K
05/08 Unemployment Rate	(Apr)	16.1%	4.4%

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