Peapack Private
Wealth Management
The Weekly
Economic & Market Recap

September 25, 2020

9/25/2020		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	27,173.96	-483.46	-1.75	2.32	-4.78	1.37
S&P 500	3,298.46	-21.01	-0.63	1.82	2.09	11.19
NASDAQ	10,913.56	120.28	1.11	0.87	21.63	36.53
S&P MidCap 400	1,817.27	-48.59	-2.60	1.92	-11.91	-5.63

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.13	Euro/Dollar	1.16	-2.03
5-Year	0.27	Dollar/Yen	105.64	1.26
10-Year	0.66	GBP/Dollar	1.27	-1.98
30-Year	1.40	Dollar/Cad	1.34	1.71

Source: Bloomberg/FactSet

What Caught Our Eye This Week

Only about 17,000 electric cars were on the world's roads in 2010. By 2019, that number had grown to 7.2 million, 47% of which were in China. In 2019, global sales of electric cars topped 2.1 million with most of the growth seen in Europe where sales grew 44%. In other major markets such as China and the U.S., sales were essentially flat and down 12% year-over-year, respectively. In the U.S., growth of the electric vehicle (EV) market could depend more on regulatory measures and other structural measures including zero-emission mandates. California's Governor Newsom announced the state will phase out sales of new gas-powered cars by 2035. California already has the country's largest market for electric and hybrid cars accounting for roughly half of all such cars sold in the U.S., but gas-powered cars still make up more than three-quarters of sales. California is home to the largest EV manufacturer, Tesla, which announced this week its plan to vertically integrate its battery manufacturing in order to build 20 million vehicles per year. In addition to better and cheaper batteries, a continued build out of the public infrastructure for charging EV cars will be necessary for sales to increase.

Economy

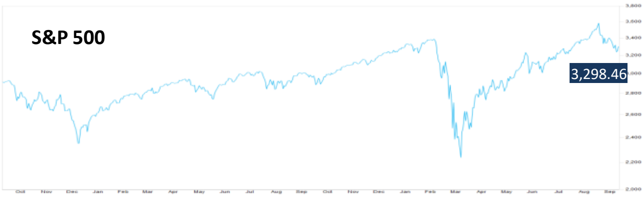
The economic headliner this week was the durable goods report, which was released on Friday. Overall, new orders for durable goods increased 0.4% in August slightly missing consensus expectations. Excluding the volatile transportation sector, core capital goods orders gained 1.8% and core capital goods shipments rose 1.5%. It appears at this juncture real equipment spending will surge 35% in the third quarter. On Tuesday, we were pleased to see existing home sales rise for a third consecutive month, advancing 2.4% to 6.00 million units at an annual rate in August. This is the strongest monthly figure going back to 2006, and overall existing home sales are up 10.5% year-over-year. The median price of an existing home is now at $310,600, an increase of 11.4% over the past twelve months. Existing home sales are now 4.2% higher than the level achieved in February, and 69% of homes sold in August were on the market for less than a month. Sales of homes priced above $1 million led the way surging 44%. Finally new home sales, released on Thursday, displayed a healthy advance of 4.8% in August to 1.011 million units at an annual rate. This is the strongest reading reported since 2006, and new home sales are now up 43.2% year-over-year.

Fixed Income/Credit Market

The $32.7B 2021 budget agreed to by New Jersey's legislature on Tuesday will have a $4.5B (14%) shortfall. This leaves lawmakers deciding if they would prefer to tap the Federal Reserve's Municipal Liquidity Facility (MLF) or have the deal underwritten for a sale to investors through public capital markets. The Fed's credit line allows states to borrow for a maximum of three years, whereas a more traditional debt offering through the capital markets would likely have extended bond maturities. According to Bloomberg, New Jersey officials estimate that NJ will receive an interest rate of approximately 2.19% if they borrow from the Fed's facility. However, if NJ issues debt through the capital markets, officials project a net interest cost of 2.5% over twelve years. A four-member panel of lawmakers will have to approve the borrowings. Currently, 10-year municipal debt backed by the state of New Jersey is trading at approximately 1.59% which equates to 74.3 basis points (bps) above the Bloomberg 10-year AAA muni index. Over a five-year horizon, 10-year NJ municipal bond yields have averaged roughly 2.62% and peaked at 3.52% in March 2017.

Equities

It was another choppy week for equities as stocks posted a fourth consecutive week of declines. The recent weakness has largely been attributed to concerns about stretched valuations in the growth and momentum factors, dampened prospects for a near-term fiscal stimulus deal, and a perceived slowdown in the U.S. economic recovery. Data has also showed an uptick in U.S. coronavirus cases over the past couple of weeks which has resulted in renewed warnings about a fall or winter resurgence. With that said, however, it was reassuring to see stocks post a strong rally on Friday. There were no clear directional drivers, but investors likely welcomed the news that Treasury Secretary Steven Mnuchin and House Speaker Nancy Pelosi have agreed to revive talks about a fifth coronavirus relief bill. Looking ahead to 3rd quarter earnings season, according to FactSet, S&P 500 earnings are expected to decline 21.2% year-over-year (YoY) which is an improvement from the previous quarter's decline of 31.6% YoY. Earnings revisions have also been coming up over the last few months as the estimated earnings decline for the 3rd quarter on June 30th, for example, was 25.3% YoY.



Our View

We have frequently discussed the substantial and timely monetary policy support from the Federal Reserve and the massive fiscal stimulus from the federal government. Their efforts have largely blunted the full impact of the economic shutdown and delayed the financial consequences for many. However, real economic damage has occurred in many areas of the domestic economy, especially for individuals and economic sectors that were already vulnerable. That damage is being revealed as the economy begins to open and the effects of government support start to fade. Consider the retail sector that was facing significant disruption due to online retailing prior to the pandemic. The shift in consumer behavior has been exacerbated by Covid-19 as people are reticent to return to brick & mortar stores. Despite stores reopening, foot traffic is down substantially, which reduces the economic value of having a physical presence. For a majority of retailers with an extensive footprint, many of their individual locations are no longer able to provide a return sufficient to make them economically viable. The largest fixed cost for most retailers is rent and many of these rental agreements were negotiated many years ago. The rental costs that retailers had agreed to do not reflect the reality of the current economic environment. Many retailers are looking for concessions or to renegotiate deals with landlords. According to the National Retail Federation, only 65% of retailers in July were paying 75% to 100% of their rent commitment. Obviously, the struggles retailers are facing will cause a ripple effect on landlords and banks. This is just one industry specific example, and there are more industries that are troubled, but the more concerning impact is on the labor market. Millions of middle-class workers have lost jobs during the pandemic in industries like retail, restaurants, and leisure. Unemployment benefits have certainly helped but cannot supplant a good paying job, especially for families with debt. Prior to this year, Americans had amassed $4.2 trillion in consumer debt along with $10 trillion in mortgage debt and for those without a job, making debt payments will be difficult. These structural issues are likely to be a drag on the recovery and will take years to resolve.

COMING UP NEXT WEEK		Consensus	Prior
10/01 ISM Manufacturing SA	(Sep)	56.0	56.0
10/02 Nonfarm Payrolls SA	(Sep)	870.0K	1,371K
10/02 Unemployment Rate	(Sep)	8.2%	8.4%
10/02 Durable Orders SA M/M (Final)	(Aug)	-	0.40%
10/02 Factory Orders SA M/M	(Aug)	1.5%	6.4%

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