Peapack Private Wealth Management

The Weekly
Economic & Market Recap

Peapack Private Wealth Management

June 5, 2020

6/5/2020		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	27,110.98	1727.87	6.81	2.41	-5.00	7.02
S&P 500	3,193.93	149.62	4.91	1.90	-1.14	13.94
NASDAQ	9,814.08	324.21	3.42	0.97	9.38	30.38
S&P MidCap 400	1,911.15	147.20	8.34	1.83	-7.36	2.27

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.21	Euro/Dollar	1.13	1.71
5-Year	0.47	Dollar/Yen	109.75	1.87
10-Year	0.90	GBP/Dollar	1.27	2.93
30-Year	1.67	Dollar/Cad	1.34	-2.98

Source: Bloomberg/FactSet

What Caught Our Eye This Week

U.S. public companies are capitalizing on a stock market rally fueled by hopes that the Covid-19 pandemic is subsiding. This year, secondary stock issuance through May is the highest since 2015. After raising $4.8 billion in March, U.S. public companies raised $22.3 billion in April and $65.3 billion in May. The stock market rally also added momentum to the initial public offering (IPO) market. After several quiet months, this week saw five companies go public looking to raise a total of $2.5 billion. The business operations of all five companies have not been materially damaged by the pandemic. Wednesday's launch of Warner Music Group was the biggest IPO of 2020 and saw the stock climb 20% higher than its IPO price. On Thursday, ZoomInfo Technologies became the first technology company to go public in 2020 and closed 62% higher in its first day of trading. All the IPOs ended higher on their first day of trading. The strong debuts signal investor confidence in the IPO market. However, experts caution that the IPO market may not quickly return to its pre-pandemic levels. A few widely anticipated IPOs such as hospitality company Airbnb and food delivery service company DoorDash will likely stay on the sidelines for now.

Economy

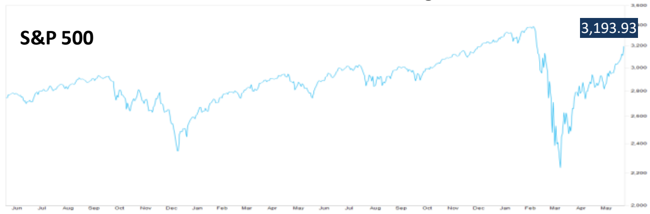
The economic headliner this week was the nonfarm payroll report, which was released on Friday. This report showed payrolls increasing by 2.5 million in May, and the unemployment rate declining from 14.7% in April to 13.3% in May. The broad U-6 measure of unemployment declined from 22.8% to 21.2%. The labor force participation rate increased from 60.2% to 60.8%. Examining the different employment sectors, leisure and hospitality gained 1.2 million jobs, construction added 464,000 jobs and manufacturing secured 225,000 jobs. In other news this week, the ISM manufacturing survey increased from 41.5 in April to 43.1 in May. The new orders index increased from 27.1 to 31.8 and the production figures moved up to 33.8. Overall, 11/18 industries continued to report contraction in May. Finally, we were pleased to see the ISM nonmanufacturing survey improve from 41.8 in April to 45.4 in May. The new orders index increased from 32.9 to 41.9 and the business activity index moved up to 41.0. Overall, 14/18 industries reported contraction in May.

Fixed Income/Credit Market

Fixed income performance during the month of May was solid, thanks to the dramatic compression in credit spreads, due to continued aggressive central bank accommodation along with the gradual easing of lockdown restrictions in numerous areas. All but one of the sectors that we follow had positive monthly returns with the top performers being emerging market debt (non-currency hedged), municipal bonds and high yield corporate bonds which returned 6.27%, 3.76% and 3.04%, respectively. Over the course of the previous month, the yield on the Bloomberg Barclays U.S. Corporate High Yield Average OAS Index declined by 107 basis points (bps) to end the month at 637 bps. Year-to-date through May, longer duration high quality bonds have performed exceptionally well with a total return of over 11% due to the dramatic collapse of the U.S. Treasury yield curve, with the 10-year tenor declining 126.6 bps. On the other hand, the weakest performing sectors in May were agency MBS, short-term U.S. Treasuries and high quality international bonds (currency hedged) which returned -0.01%, 0.08%, and 0.41%, respectively.

Equities

U.S. domestic equities had another strong week of performance as the S&P 500 posted its third consecutive week of 3%+ gains for the first time since 1982. Friday marked the broader market's best single day session since April, a 2.62% rise, as all sectors posted 1%+ increases. The Nasdaq Composite also reached a new intraday record on Friday but finished just off its February 19th high. The strength on Friday was driven by the surprisingly strong payroll report, as well as a general sense that the nation is approaching a legitimate reopening of the economy. The reopening and recovery theme lifted equity markets throughout the week. Investors tended to ignore the rising tensions between the U.S. and China and dismissed the civil unrest within the country as a non-issue in regard to business sentiment. Fiscal stimulus and positive corporate commentary acted as additional tailwinds for the week's rally. The market action reflects a belief that the economy may be starting to show real signs of stabilization. The week's top performing sector was energy at +15.41% while healthcare lagged at +0.23%. The Russell 1000 Value outperformed its Growth counterpart for the second straight week 7.52% to 3.22%, respectively, and the S&P 500 finished the week with a 4.91% gain.



Our View

This year has proven to be a period of shocking events and surprises. The coronavirus seemingly, out of nowhere, has caused a devastating and costly loss of life, with 108,000 Americans having already died due to the pandemic. It has also created the deepest recession since the Great Depression and a breathtakingly rapid bear market. We have seen truly unprecedented efforts by the Federal Reserve, as well as other central banks, to provide liquidity to the economy through direct intervention in credit markets. The fiscal and monetary support has been the driving force allowing financial markets to stabilize and for the dramatic recovery in equity markets. Perhaps just as astonishing as the virus and its economic impact has been the tremendous resiliency of the equity market. Despite all the social and economic carnage related to the coronavirus, investors in U.S. large-cap stocks have been seemingly unscathed as major indexes have largely recovered to beginning of the year levels. Even for most equity bulls, it has been difficult to be comfortable with the equity market rally due to the wide divergences that have developed. The Russell 2000 index, a standard index used to represent small-cap stocks, underperformed the S&P 500 index on a year-to-date basis by 22% through mid-April. Another example has been the massive gulf in relative performance between growth and value stocks, which by early May was over 23% when comparing the Russell 1000 Growth versus the Russell 1000 Value. Additionally, the fixed income market was not confirming the equity market's strength as bond yields remained stubbornly compressed and yield spreads elevated. Over the last few weeks, all these divergences have begun to resolve as the equity rally broadened into small caps and value stocks, and bond yields have started to rise. The equity market, based on technical and fundamental factors, seems to be overbought. But the stock market's strength is born out of investor optimism that the economy is on the mend. Today's employment report is reinforcing that narrative and perhaps suggesting that the U.S. economy will prove to be resilient.

COMING UP NEXT WEEK		Consensus	Prior
06/10 CPI ex-Food & Energy SA M/M	(May)	0.0%	-0.40%
06/10 CPI NSA Y/Y	(May)	0.25%	0.30%
06/11 Initial Claims SA	(06/06)	1,525K	1,877K
06/11 PPI ex-Food & Energy SA M/M	(May)	0.10%	-0.30%
06/11 PPI SA M/M	(May)	0.10%	-1.3%
06/12 Michigan Sentiment NSA (Preliminary)	(Jun)	76.0	72.3

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