The Weekly
Economic & Market Recap

October 30, 2020

10/30/2020		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	26,501.60	-1833.97	-6.47	2.33	-7.14	-2.10
S&P 500	3,269.96	-195.43	-5.64	1.84	1.21	7.67
NASDAQ	10,911.59	-636.69	-5.51	0.79	21.61	31.83
S&P MidCap 400	1,900.18	-115.47	-5.73	1.81	-7.89	-3.80

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.17	Euro/Dollar	1.16	-1.58
5-Year	0.38	Dollar/Yen	104.54	-0.28
10-Year	0.88	GBP/Dollar	1.29	-0.87
30-Year	1.66	Dollar/Cad	1.33	1.38

Source: Bloomberg/FactSet

What Caught Our Eye This Week

Cannabis legalization measures passed in eight out of nine states as a result of the U.S. election in 2016. The industry is hopeful for another big win next week. 33 states have legalized medical cannabis to date, and of those, 11 states have legalized cannabis for adult recreational use. This year voters in five states (Arizona, New Jersey, South Dakota, Montana, Mississippi) will decide whether to adopt either medical or recreational cannabis laws. Polling indicates the measures will pass in all five states. If approved, New Jersey's public question No. 1 would legalize cannabis for adults 21 and older. In addition, the measure would legalize the cultivation, processing, and sale of retail cannabis effective January 1st of next year. Total cannabis sales in states that have legalized the plant for medical and recreational purposes were approximately $15 billion in 2019 and are expected to top $30 billion by 2024 according to data from BDS Analytics, which tracks dispensary sales. Marijuana Business Daily estimates NJ annual sales to be between $850 million and $950 million by 2024 but a successful initiative carries greater significance outside of New Jersey's borders. The passage of recreational cannabis in New Jersey could accelerate legislative efforts in neighboring New York and Pennsylvania.

Economy

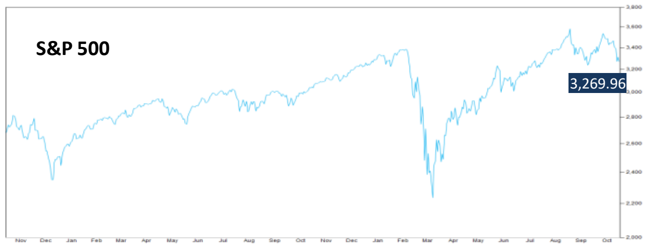
The economic highlight this week was the first report on third quarter real GDP. The value of all goods and services produced across the economy increased at a seasonally and inflation adjusted 33.1% in the third quarter. Real consumer spending led the way advancing 40.7%, and consumer spending on durable goods gained an impressive 82.2%. Business fixed investment spending and housing also posted impressive results increasing 20.3% and 59.3%, respectively. Overall, this level of GDP is still 3.5% below the peak achieved in Q4 2019 and 4.7% below the pre-virus mark. In other news this week, orders for durable goods increased 1.9% in September, which was better than expectations. More importantly "core" capital goods orders and shipments gained 0.3%. Overall, orders for durable goods have increased for five consecutive months. On Monday new home sales posted a 3.5% drop in September to 959,000 units at an annual rate. Despite this decline new home sales are up 33.1% over the past twelve months. Finally, on Friday real consumer spending increased 1.2% in September and personal income advanced 0.9%. The personal savings rate dropped 0.5% to 14.3%.

Fixed Income/Credit Market

The Bloomberg 10-year AAA muni index is currently trading at approximately 0.94%, 11 basis points (bps) below the year-to-date average of 1.05%. The yield on the index hit a high on March 23rd of 2.88% after dipping as low as 0.81% on March 9th – a 67 bps decrease from where the index opened at the beginning of 2020. Following March's drastic sell-off, the index hit a low on August 10th of 0.56%. While 0.94% is a historically low yield versus the index's lifetime average of 2.22%, municipal bond investors are benefitting from a much better yield environment compared to a little more than two months ago. For context, the 10-year muni to U.S. Treasury ratio is at 112.8%, which is well above the historic average of 95%. 10-year municipal debt backed by the state of New Jersey is currently trading at approximately 1.83% which equates to 89 bps above Bloomberg 10-year AAA muni index. On Thursday, a new issue 10-year tax-exempt bond (Aa2) priced at 1.70%. For tax-exempt NJ muni bond investors in the highest tax bracket, the taxable equivalent yield to maturity is 3.32%.

Equities

It was another difficult week for equities as election concerns and fears surrounding the rising U.S. coronavirus case count led to poor performances across all indices and sectors. Wednesday marked the biggest daily decline across the broader market since July 11, and Friday's close marked the end of the worst week for the S&P 500 and Nasdaq since March. Despite posting solid Q3 financial results, names in big tech were also a focal point of the week's selloff. Disappointing guidance along with full valuations caused the information technology sector to come under further pressure. For the week, the space was down 6.47%. Moreover, the S&P 500, Dow, and Nasdaq finished the week -5.64%, -6.47%, and -5.51%, respectively. Volatility is expected to remain high for the upcoming weeks until the election results and the economic impact from the new lockdowns in Europe become clear.



Our View

Elevated volatility resurfaced this week and it was primarily predicated on the resurgence of Covid-19 cases around the globe, the lack of progress on additional fiscal stimulus and the increased probability of a contested U.S. presidential election outcome. Financial conditions have tightened recently, but are nowhere near the levels reached approximately 7 months ago thanks to the prompt and aggressive actions of the Fed. Beyond bringing frontend rates down close to zero, implementing numerous liquidity facilities and purchasing a sizable amount of assets (the Fed's balance sheet is now over $7 trillion), the Fed has demonstrated its ability to innovate and further expand its tool set. What has been amazing is the incredibly tight range that U.S. Treasury yields have moved in the recent past. More specifically, the 10-year U.S. Treasury yield has fluctuated just 23.7 basis points (bps) over the past two months, which is the tightest range since 2018. But, the shape of the yield curve has been changing to a degree as of late with the long end of the U.S. Treasury curve beginning to lift off. There are numerous forces pushing the most interest rate sensitive portion of the yield curve higher including the prospect of additional fiscal stimulus, the reorientation of global supply chains and the development of additional medical solutions to fight Covid-19. The Fed is acutely aware of the economically beneficial nature of low interest rates and how they help reduce the slack within the labor market. The Fed is currently purchasing approximately $80 billion dollars of U.S. Treasuries a month and the September Fed Minutes indicated that they are examining the current purchase program and could shift purchases to the long end of the curve to create downward pressure on rates if need be. A further step would be to introduce a yield curve control program and explicitly set a yield target range at a specific tenor, similar to what is being implemented currently in Japan and Australia. With rates so low currently, it may seem premature to discuss ways to suppress them, but given the existing headwinds facing the economy, all options must be available in order to sustain the recovery.

COMING UP NEXT WEEK		Consensus	Prior
11/02 Markit PMI Manufacturing SA (Final)	(Oct)	53.3	53.3 P
11/02 ISM Manufacturing SA	(Oct)	56.0	55.4
11/03 Durable Orders SA M/M (Final)	(Sep)	-	1.9% P
11/03 Factory Orders SA M/M	(Sep)	0.55%	0.070%
11/04 ISM Non-Manufacturing SA	(Oct)	57.8	57.8
11/06 Nonfarm Payrolls SA	(Oct)	650.0K	661.0K
11/06 Unemployment Rate	(Oct)	7.7%	7.9%

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