Peapack Private Wealth Management

March 13, 2020

3/13/2020		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	23,185.62	-2679.16	-10.36	2.81	-18.76	-9.27
S&P 500	2,711.02	-261.35	-8.79	2.23	-16.09	-2.88
NASDAQ	7,874.88	-700.74	-8.17	1.08	-12.23	3.74
S&P MidCap 400	1,546.75	-251.04	-13.96	2.00	-25.02	-18.09

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.50	Euro/Dollar	1.11	-2.14
5-Year	0.72	Dollar/Yen	107.16	1.72
10-Year	0.98	GBP/Dollar	1.24	-4.85
30-Year	1.55	Dollar/Cad	1.40	4.17

Source: Bloomberg/FactSet

What Caught Our Eye This Week

S&P 500 companies get some credit for fueling the 11-year bull market because of their high level of stock repurchases. Through February 2020, S&P 500 corporations authorized about $122 billion in future stock buybacks, according to Birinyi Associates research. That is 47% lower than the same period in 2019 when authorizations hit $229.38 billion. This time last year, strategists were predicting that stock buyback authorizations could reach a record of $1 trillion for 2019 after reaching over $806 billion in 2018. By the fall of 2019, the tune had changed, and expectations were for spending on S&P 500 stock buybacks to decline in 2019. The Wall Street Journal reported this week that S&P 500 corporations spent $730 billion on their own stock in 2019, down 9.4% from 2018. Stock buybacks reduce companies' shares outstanding which increases their earnings per share but have no effect on a company's profits. What corporations spend in 2020 will most likely be affected by the current economic uncertainty surrounding the global economy. Current analyst estimates for 2020 corporate stock repurchases range from $675 billion to $800 billion. In the past, corporations tended to step up buying during market selloffs. The market correction provides a buying opportunity for companies to buy at lower prices. However, with more companies reducing sales forecasts, it is possible they become more conservative with their cash.

Economy

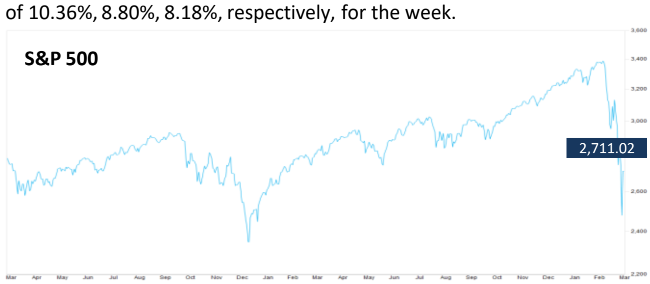
This week the economic data centered around inflation statistics with the release of the consumer price index and the producer price index. On Wednesday the CPI posted a gain of 0.1% in February, which was slightly above expectations. The "core" CPI also increased rising 0.22%, and is now up 2.4% year-over-year. Energy prices increased by 2.0% and food prices by 0.4%. The yearly advance in the "core" index is the firmest reading since September, and one of the highest advances of the entire expansion. The PPI was reported on Thursday and showed a decline of 0.6% in February, which was well below expectations. The "core" PPI also decreased, dropping by 0.3% and is now up 1.4% year-over-year. This monthly decline is the largest going back to 2015. Energy prices had the largest effect on the headline figure losing 3.6%. Also on Thursday weekly jobless claims posted a 4,000 decrease to 211,000 during the week ending March 7th. The four-week moving average is now at 214,000. Finally on Friday the University of Michigan consumer sentiment index fell from 101.0 in February to 95.9 in the preliminary March report. The final sentiment figure will be released on March 27th.

Fixed Income/Credit Market

March has been a volatile month for U.S. Treasury yields. The 10-year U.S. Treasury Note Volatility Index (TYVIX) has increased 46% with the 10-year Treasury yield trading in a 62.2 basis point (bp) range. The 10-year Note began March at approximately 1.17% but declined to 0.54% by March 9th driven by protracted fears over the spread of COVID-19 and the sharp drop in oil prices after OPEC+ could not come to an agreement on supply cuts. Since then, President Trump and global central banks have discussed and/or enacted measures to alleviate the strain on the financial markets which had precipitated a flight-to-quality trade in U.S. Treasuries. To further exhibit market volatility, the MOVE Index (Merrill Lynch Option Volatility Estimate) which is a yield curve weighted index of volatility on 1-month Treasury options is trading roughly 4 standard deviations above its one-year mean. On Friday, the 10-year closed up 16 bps to 0.97%.

Equities

Equities experienced their worst week since 2008 as the fear and uncertainty surrounding the coronavirus turned into a global selloff. The week was earmarked by the WHO officially declaring the COVID-19 outbreak a pandemic, the Saudi-Russia price war prompting oil to post its largest single-day decline since 1991, President Trump initiating a 30-day travel ban on Europe, and the Fed injecting $1.5 trillion of liquidity into the market. Additionally, trading was suspended on two separate occasions during the week as the market triggered its circuit breaker rule. The circuit breakers were activated on Monday and Thursday after the market dropped by 7% on both days and lasted for 15 minutes each. These events culminated in all three major indices entering bear market territory on Wednesday, ending their extraordinary 11-year bull run, and the Dow experiencing a 10% decline of over 2300 points on Thursday – the single worst trading day since Black Monday in 1987. The trend reversed Friday when equities caught fire as a result of President Trump and Healthcare Executives delivering a speech in which they laid out a plan to combat COVID-19. Despite the rally, the Dow, S&P 500, and Nasdaq posted losses of 10.36%, 8.80%, 8.18%, respectively, for the week.



Our View

Since 1945, the S&P 500 has experienced 10 bear markets, (a peak to trough decline of 20% or more) which equates to one occurring every 7.5 years. On average, the peak to trough has taken approximately 17.5 months; however, the unforeseen and rapidly evolving nature of COVID-19 caused the current bear market to occur in just 16 trading sessions. The market turmoil of recent weeks even caused a dislocation in the U.S. Treasury market. Typically, during times of market stress, investors sell assets and buy Treasuries for their safety and liquidity, but during times of times of panic liquidity can dry up in most asset classes and investors are forced to sell Treasuries in order to obtain cash. This was evident a few times this week when Treasury yields escalated while equities sold off. The Fed took action on Thursday to support the Treasury market by modifying its Treasury reinvestment and $60 billion monthly purchase program to include Treasuries across all maturities. The previously mentioned action may open the door to additional quantitative easing when the FOMC meets next week, which will help less liquid corners of the market clear in a more orderly fashion. The markets will need more than ultra-accommodative monetary policy to combat the supply chain disruptions and reduce consumer demand caused by COVID-19. With that being said, President Trump declared a national emergency and announced a range of actions to help soften the economic impacts from the outbreak. An additional hint of good news is that, market and economic support is coming from all over the globe in the form of mortgage forbearance in Italy, 0% interest rate loans in Sweden, bond purchases in Japan and the reduction of required reserve ratios for some banks in China. According to Bloomberg, COVID-19 cases total 80,813 in China, however, the number of new cases have declined to the point where there were no new cases reported today. China took drastic measures to stop the spread of the virus and as their economy gradually returns to normal, they provide hope that COVID-19 can be contained.

COMING UP NEXT WEEK		**Est.**
03/17 Retail Sales Control Group M/M	(Feb)	0.40%
03/17 Industrial Production SA M/M	(Feb)	0.40%
03/17 JOLTS Job Openings	(Jan)	6,350K
03/20 Existing Home Sales SAAR	(Feb)	5,515K

For more information about our solutions: http://peapackprivate.com