Peapack Private
Wealth Management

The Weekly
Economic & Market Recap

October 23, 2020

10/23/2020		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	28,335.57	-270.74	-0.95	2.18	-0.71	5.78
S&P 500	3,465.39	-18.42	-0.53	1.73	7.26	15.67
NASDAQ	11,548.28	-123.27	-1.06	0.82	28.71	42.50
S&P MidCap 400	2,015.65	18.31	0.92	1.71	-2.30	3.52

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.16	Euro/Dollar	1.18	0.99
5-Year	0.37	Dollar/Yen	104.83	-0.55
10-Year	0.84	GBP/Dollar	1.30	0.89
30-Year	1.64	Dollar/Cad	1.32	-0.35

Source: Bloomberg/FactSet

What Caught Our Eye This Week

Among several policy matters discussed during last night's Presidential debate was the future of the energy industry depending on which candidate wins the election on November 3rd. While voters are likely focused on those developments in terms of their impact on the prices of oil and natural gas, recent investments by major oil companies suggest that they see hydrogen as a new alternative fuel source as a new, zero-emission fuel for trucking, aviation, and shipping. Once seen as a dirty chemical feedstock used for oil refining and chemical production, hydrogen may morph from a niche marginal fuel to become an essential resource in the decarbonization of sectors where electrification is not possible. Today, less than 1% of hydrogen is "green". However, when created by a water electrolysis process powered by renewable energy resources such as solar, the resulting gas is carbon-free and virtually emission-less. Produced in this way hydrogen would alleviate storage problems and could grow to be a sizeable market for the next century, from supplying less than 5% of the world's energy to representing almost 25% of global energy consumption by 2050 (with government policy support). If the fuel's usage comes close to these estimates, it could generate more than $2.5 trillion of direct revenue annually.

Economy

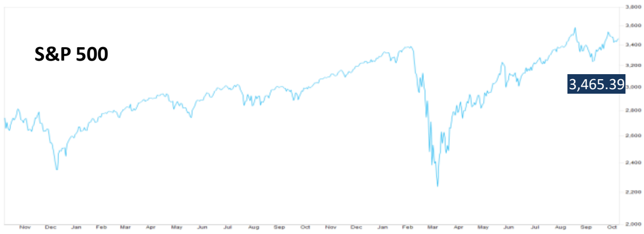
This week the economic data centered around housing statistics with good news spread among three reports. First on Tuesday housing starts posted a 1.9% rise to 1.415 million units at an annual rate in September. Single family starts and permits increased 8.5% and 7.8%, respectively. Single family construction rose for the fifth month in a row and single family starts are now up 22.3% year-over-year. Single family construction is now 7.2% above its pre-pandemic high. In other news this week, the NAHB survey (National Association of Home Builders) reached a new all-time high, rising from 83 to 85 in October. This report also mentioned increased buying interest in the suburbs, exurbs and small towns. The positive housing data continued on Friday with existing home sales registering an impressive 9.4% increase in September. Total sales came in at 6.54 million units at an annual rate, a level not seen since 2006. Existing home sales have now increased for four consecutive months and have advanced 20.9% year-over-year. Seventy-one percent of the homes sold were on the market for less than a month.

Fixed Income/Credit Market

Optimism regarding additional fiscal stimulus measures coming to fruition in the near future, coupled with further economic healing, encouraged fixed income investors to step out on the risk spectrum. More specifically, the U.S. Treasury market experienced lackluster demand this week, which caused yields to rise approximately 0.1 to 11 basis points (bps) across the 1 to 30-year tenors. Looking at U.S. ETF fixed income fund flows over the previous week further confirms the risk-on sentiment as corporate and aggregate bonds experienced net flows of $1.0 and $1.4 billion, respectively. Government bonds on the other hand, experienced minimal net flows with the asset class expanding its market capitalization by just 0.1%. The risk-on trade caused credit spreads to tighten with the Bloomberg Barclays U.S. Corporate High Yield OAS contracting 6 bps on a weekly basis through Thursday. Investment grade issuance on the primary market came in close to this week's projection of $15 billion and year-to-date an astounding $1.737 trillion has been issued and greeted with solid demand. From a duration perspective, U.S. ETF investors favored a short-term approach with approximately $926 million of net flows.

Equities

U.S equities finished mostly higher on Friday as the S&P 500 and Nasdaq posted gains to round out a week of mixed stock performance. The prospects of a potential coronavirus stimulus package that would meet both Congress' and President Trump's approval dominated the market news again this week. While Democrats and the White House apparently made progress throughout the week's negotiations, there is a considerable amount of skepticism amongst lawmakers and investors about the legitimacy of a bill being rolled out prior to the election on November 3rd. Sector wise, information technology had the worst week, losing 2.21% on the week; communication services on the other hand was the top performer gaining 2.13%. Additionally, the S&P 500 and Dow ended down -0.53% and -0.95%, respectively. As of Friday, 135 companies within the S&P 500 have reported Q3 earnings. So far, the Q3 earnings season has seen a year-over-year EPS decline of -13.56%, despite a high majority of firms beating their consensus estimates.



Our View

The election is only 11 days away. Many investors understand that potentially we could see a fundamental shift in direction regarding our economy, points of regulatory emphasis, and tax policy. The next president is also likely to decide who the next Fed Chairman will be when Chair Powell's term ends in February 2022. Even the shape and functioning of some of our most significant institutions may change. All of this could have investment implications. Outside of a contested election, we may have more clarity on some of these questions in a few weeks. There is substantial uncertainty surrounding the election, but regardless of the election results there are important cyclical and secular factors that investors need to consider. We are confident that the economy is on the path toward a cyclical recovery after an incredibly short and very severe recession. With the efficacy of additional monetary stimulus more questionable, or at the very least less impactful, it is highly likely that we will see additional fiscal stimulus once the fog of the election dissipates. Fiscal stimulus will help ensure that the economy stays on a sustainable growth path. Additionally, several secular disruptors will remain in place. First, the prospect of heightened friction between the U.S. and China as the fight for global economic and political primacy between the two superpowers heats up. Second, the rise of populism has not yet peaked. Populism is the creation of higher levels of economic inequality and the sense that many people have been left behind, which have only been amplified by the impacts of the coronavirus driven recession. Protectionism and rising nationalistic sentiments will likely have a detrimental effect on trade and global supply chains for many years to come. Finally, technology is an essential aspect of productivity growth, but it also is a major disruptive force that shifts work and business processes. Technology, and the ongoing digitization of our daily lives, generally lifts the economy (and our standard of living), but it creates winners and losers. Regardless of who is in power in Washington, these factors will remain critical aspects of the investment landscape.

COMING UP NEXT WEEK		Consensus	Prior
10/27 Durable Orders SA M/M (Preliminary)	(Sep)	0.60%	0.55%
10/27 Consumer Confidences	(Oct)	101.5	101.8
10/29 Continuing Jobless Claims SA	(10/17)	-	8,373K
10/29 Pending Home Sales M/M	(Sep)	55.2	54.6
10/30 Personal Income SA M/M	(Sep)	0.45%	-2.7%
10/30 Michigan Sentiment NSA (Final)	(Oct)	81.2	81.2P

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