Peapack Private
Wealth Management

The Weekly
Economic & Market Recap

October 9, 2020

10/9/2020		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	28,586.90	904.09	3.27	2.15	0.17	9.26
S&P 500	3,477.13	128.69	3.84	1.72	7.63	20.19
NASDAQ	11,579.94	504.93	4.56	0.82	29.06	48.01
S&P MidCap 400	1,996.36	93.57	4.92	1.73	-3.23	7.28

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.16	Euro/Dollar	1.18	0.85
5-Year	0.34	Dollar/Yen	105.66	0.28
10-Year	0.78	GBP/Dollar	1.30	0.49
30-Year	1.57	Dollar/Cad	1.31	-1.39

Source: Bloomberg/FactSet

What Caught Our Eye This Week

After declining earlier this year and languishing for the past two years, natural gas futures are trading at $2.76 per million British thermal units (BTU), up more than 20% on the year. Natural gas, a byproduct of oil production, has been plentiful for years as a boom in U.S. oil drilling has increased supply and depressed prices. Oil drilling has declined amid the pandemic and is likely in for a protracted slump until the economics of extracting a barrel of crude oil from the ground and selling it improve. Less drilling means less available natural gas leading to the commodity's recent price upswing. In addition, the United States natural gas glut has been reduced as a growing amount of gas in liquefied form has been exported. Should more countries switch their electricity production from coal to natural gas, this trend could continue and even accelerate. Analysts thinks that there is a case for natural gas to rise as high as $5 per million BTU. This would be a remarkable increase given its fall to $1.47 earlier this year, the lowest level in 25 years. Additionally, prices could become more volatile in the near-term as hurricane season on the East Coast causes significant power outages and shipping delays.

Economy

It was an uneventful week for economic data, and the main focus was on international trade, which was presented on Tuesday. The U.S. trade deficit in goods and services came in at $67 billion, which was larger than the consensus expected $66.2 billion. Exports increased by $3.6 billion and imports rose by $7.4 billion. Overall, exports remain 13% below their level in August 2019. U.S. imports of consumer goods and food rose to all-time highs in August. Also on Tuesday, the JOLTS report (job openings and labor turnover survey) showed the number of job openings declining 3% in August, the first monthly decline since the plunge in March/April. The number of job openings in the private sector decreased by 4.1%, and the number of hires fell 4.0%. Overall, the number of job openings was little changed at 6.5 million on 8/31/20. Over the past 12 months, ending in August there is now a net employment loss of 7.0 million. Finally, the ISM nonmanufacturing services survey improved from 56.9 in August to 57.8 in September. The new orders index increased to 61.5 and the business activity index rose to 63. Overall, 16 of 18 sectors reported growth.

Fixed Income/Credit Market

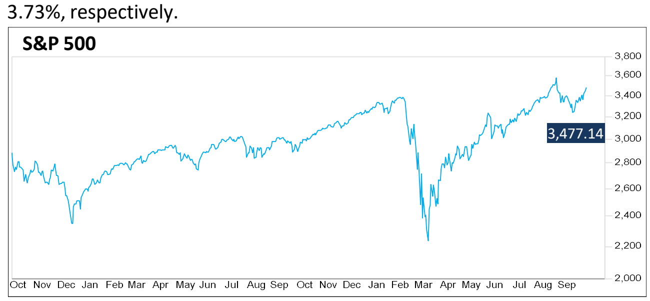
Week-over-week, the 10-year U.S. Treasury yield increased 7.2 basis points (bps) to roughly 0.78%; the top of the 3-month trading range for the benchmark tenor. Treasury issued $35B of 10-year Notes on Wednesday with respectable demand statistics. The bid-to-cover ratio was 2.47 times versus an average of 2.4 times for auction re-openings. Additionally, the auction stopped at 0.765% which was a tenth of a bp higher than expected. Indirect bidders, which include financial institutions and foreign central banks, were awarded 62.9% of the Notes vs a 59% average. The U.S. 10-year Note remains an attractive alternative versus global peers.

Global 10-Year Yields

Country	Rate	Basis point spread vs U.S.
U.S.	0.78	
U.K.	0.278	-50.2
France	-0.268	-104.8
Germany	-0.529	-130.9
Italy	0.721	-5.9
Spain	0.171	-60.9
Switzerland	-0.543	-132.3
Japan	0.027	-75.3

Equities

Despite Tuesday's late day pullback, U.S. equities posted robust gains for the second week in a row. The week's strong performance came on the back of headlines touting attempts to negotiate a new coronavirus stimulus package. According to news reports on Friday, President Trump has approved a $1.8 trillion relief plan that will provide aid to small businesses and airlines while also allocating funds for additional PPP/unemployment relief. Treasury Secretary Steven Mnuchin is expected to discuss the new proposal with House Speaker Nancy Pelosi in what will be a new round of "start-and-stop" negotiations, but with less than a month until the election, uncertainty remains if any agreement can be reached between the two parties. Regardless, all indices and sectors reacted positively to the week's developments. Sector wise, materials topped the charts up 5.12%, while the NASDAQ led the pack on the index front up 4.56%. Both growth and value names had strong performances as the Russell 1000 Growth and Value indices posted gains of 4.21% and 3.73%, respectively.



Our View

The equity market has rallied roughly six percent over the last two weeks largely on continuing optimism regarding an additional stimulus package from Congress. Stocks have regained two-thirds of the early September correction. The correction seemed very orderly and without panic, which has allowed market sentiment to more easily shift directions. It is not unusual for the equity market to experience a retrenchment in the early fall, especially in an election year. With the election less than a month away, investors are focused on the policy ramifications of various election outcomes and the potential frightful implications of a contested election. Although most statisticians would argue that the number of observations is too limited to draw meaningful conclusions, we contend that from an aggregate equity market perspective, elections in the past have had a negligible effect over a full market cycle. Therefore, most investors should focus on their long-term investment and financial goals and financial market fundamentals. Before this year's election, many companies will have released third-quarter earnings along with forward guidance on the current quarter and the outlook for 2021. By early November, we should have a reasonable sample to assess the slope of earnings growth over the near term. According to FactSet, estimates for the S&P 500 for the third quarter are expected to be down 20.9% year-over-year (YoY), which is a clear improvement relative to the drop of 31.7% in the second quarter. Despite the large drop in earnings YoY in the second quarter, it was apparent that analysts' estimates were too pessimistic. So, the better than expected results helped the equity market firm. Unlike the second quarter where analysts' expectations for earnings were falling heading into earnings season, estimates for Q3 have been improving. Recent economic indicators have been on balance a little softer than anticipated. For example, improvement in unemployment claims has slowed, which is perhaps signaling that the overall economic recovery will be more deliberate. Notwithstanding a contested election, earnings and forward guidance are likely to be more important drivers of near-term market sentiment than the election.

COMING UP NEXT WEEK		Consensus	Prior
10/13 CPI ex-Food & Energy SA	(Sep)	0.20%	0.40%
10/15 Initial Claims SA	(10/10)	840.0K	840.0K
10/16 Retail Sales SA	(Sep)	0.80%	0.60%
10/16 Industrial Production SA	(Sep)	0.60%	0.40%
10/16 Michigan Sentiment NSA (Preliminary)	(Oct)	81.0	80.4

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