# PEAPACK PRIVATE
Wealth Management

# The Weekly
Economic & Market Recap

Peapack Private Wealth Management

June 19, 2020

| 6/19/2020 | | Wk | Wk | | YTD | 12 Mos |
|---|---|---|---|---|---|---|
| | | Net | % | Div | % | % |
| **STOCKS** | Close | Change | Change | Yield | Change | Change |
| DJIA | 25,871.46 | 265.92 | 1.04 | 2.53 | -9.35 | -2.24 |
| S&P 500 | 3,097.74 | 56.43 | 1.86 | 1.95 | -4.12 | 6.17 |
| NASDAQ | 9,946.12 | 357.31 | 3.73 | 0.87 | 10.85 | 25.05 |
| S&P MidCap 400 | 1,784.72 | 24.81 | 1.41 | 1.95 | -13.49 | -7.11 |

| **TREASURIES** | Yield | **FOREX** | Price | Wk %Change |
|---|---|---|---|---|
| 2-Year | 0.18 | Euro/Dollar | 1.12 | -0.56 |
| 5-Year | 0.31 | Dollar/Yen | 106.97 | -0.33 |
| 10-Year | 0.69 | GBP/Dollar | 1.24 | -1.40 |
| 30-Year | 1.46 | Dollar/Cad | 1.36 | -0.31 |

Source: Bloomberg/FactSet

### What Caught Our Eye This Week

The Federal Reserve calmed credit markets in March by promising a whatever-it-takes approach and committing to buy $750 billion of corporate bonds. The program enables the Fed to buy preexisting and new-issue bonds of companies that are U.S.-based and have not received other aid under the Coronavirus Aid, Relief, and Economic Security (CARES) Act. Since May, the Fed has indirectly bolstered the corporate bond market by purchasing over $7 billion in shares of corporate bond exchange traded funds (ETFs). This week, the Fed announced it will also purchase individual corporate bonds. Subsequent to the Federal Reserve backstopping the corporate bond market, new issuance has risen at an unprecedented pace. Year-to-date, corporate bond issuance is about $1.2 trillion and on pace for a record year. Last year total issuance was approximately $1.4 trillion, which was up 5.5% over 2018. However, 2017 saw $1.64 trillion in new issuance. Companies are taking advantage of low yields to build cash to help them weather the recession and a period of uncertainty. Strategists say that the record amount of issuance is finding buyers not only in the U.S. but also overseas where the alternative is negative yielding bonds.

### Economy

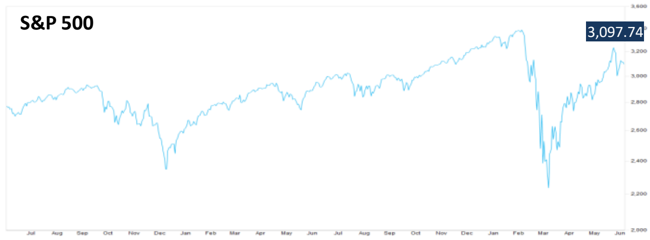
The economic headliner this week was the retail sales report, which was released on Tuesday. Retail sales increased by a record 17.7% in May, as states eased restrictions regarding Covid-19. Once again, non-store retailers were the highlight surging by 9%. Over the last three months, online sales have increased by a total of 25.4%. Non-store retailers now account for 30% of sales in the "control" category. The "control" category, which excludes food service, autos, gas and building materials, advanced by 11%. Sales at vehicle dealers exploded by 44.1% and bars/restaurants sales increased by 29.1%. Collectively, May retail spending totaled $485.5 billion, which is still below the level posted in February ($527.3 billion). In other news this week industrial production figures advanced by 1.4% in May while manufacturing output gained 3.8%. Auto production increased by 120.9% and overall capacity utilization rose to 64.8%. Finally, on Wednesday housing starts data showed a 4.3% increase in May, which was a bit less than expectations. Permits advanced by 14.4% to 1.22 million, but these figures are far below the January level of 1.54 million. Overall housing starts are down 23.2% year-over-year.

### Fixed Income/Credit Market

In a surprising twist on Monday, the FOMC announced it will start buying individual corporate bonds under the Secondary Market Corporate Credit Facility (SMCCF) which is the same investment vehicle that houses the $7.03 billion ETFs the Fed has purchased. The buying program for the $250 billion facility will consist of a diversified index of U.S. corporate bonds that meet predetermined investment criteria such as minimum ratings and maximum maturity. As expected, the Fed's increased accommodation gave investors a jolt of confidence and put additional downward sloping pressure on credit spreads. On the week, investment-grade and high yield option adjusted spreads (OAS) decreased 12 basis points (bps) and 34 bps, respectively. Furthermore, U.S. ETF fund flows witnessed investors pouring into domestic ETFs with net flows of $7.3B versus only a $444MM for international funds. By asset class, corporate bonds lead the dollar volume increase with approximately $3.9B of net fund flows far outpacing government bonds with flows of $1.8B which was the second closest by dollar volume.

### Equities

Market volatility continued this week but ultimately produced solid weekly gains for all three major indices. The beginning of the week saw stocks continue their upward climb as strong economic data, particularly the record May retail sales report, and a $1 trillion infrastructure proposal put forth by the White House, shored up investor sentiment regarding the nation's reopening efforts. Wednesday and Thursday, however, saw stocks post mixed to down results over concerns about the rising numbers of COVID infections in some states. Jerome Powell's comments reiterating the market's need for continued fiscal support also contributed to the two-day slide, as the Fed continues to express caution about the overall state of the economy. On Friday, strong performances in the energy, healthcare, and materials sectors lifted the market in early trading; however, midday news of Apple reclosing some of its stores in Arizona, Florida, North Carolina, and South Carolina due to rising coronavirus cases in those states caused the market to reverse course and leave the S&P 500 and Dow at losses. Regardless of the sudden turn, the S&P 500 still finished with a 1.86% weekly gain.




### Our View

During the twelve bear markets since World War II, equity markets have declined on average over 30% and taken roughly 14 months to go from peak-to-trough. The recovery from those bear markets has averaged two years. The S&P 500 is still 8% off old highs reached in February, but the speed of the 40% recovery in the price of the index is unprecedented. The dramatic equity market drawdown and rapid recovery has, as of today, *only taken four months.* The breathtaking pace has left many investors uncertain. Yet other investors still embrace the prior bull market's mantra of buy the dip. We are seeing an elevated level of market speculation, especially from retail investors. The Hertz saga, a significant rally in the stock price after declaring bankruptcy and the suggestion of a secondary offering, is a clear indication of how speculation has crept into markets. Hopefulness regarding a quick economic rebound is not just in the financial markets. The small business optimism index bounced from April's seven-year low of 90.4 to 94.4 in May. Small business owners are optimistic about future business conditions and expect the recession to be short-lived. That is consistent with the 80% of unemployed who expect to have their jobs back soon. There is some justification for the positive sentiment. The high-frequency economic data suggests the worst is behind the U.S. economy. More importantly, economic indicators such as retail sales and housing starts are indicating that the consumer side of the economy is experiencing a strong rebound. However, our experience has been when markets seem to be running ahead of the fundamentals and speculation ramps up, financial markets tend to experience a period of heightened volatility. The coronavirus case counts and hospitalizations have improved in some areas of the country but have deteriorated in others. The coronavirus remains a threat to the economy. After the initial bounce in economic activity off extreme lows, the economic recovery is likely to be somewhat uneven. The uncertainty will create periodic spikes in volatility as we transition to a more sustainable growth phase.

| **COMING UP NEXT WEEK** | | **Consensus** | **Prior** |
|---|---|---|---|
| 06/22 Existing Home Sales SAAR | (May) | 4,230K | 4,330K |
| 06/23 Markit PMI Manufacturing SA (Prelim) | (Jun) | 44.5 | 39.8 |
| 06/25 Durable Orders SA M/M (Prelim) | (May) | 11.0% | -17.7% |
| 06/26 Personal Income SA M/M | (May) | -6.0% | 10.5% |
| 06/26 Michigan Sentiment NSA (Final) | (Jun) | 78.9 | 78.9 |

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