Peapack Private
Wealth Management

The Weekly
Economic & Market Recap

December 11, 2020

12/11/2020		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	30,046.37	-171.89	-0.57	2.07	5.28	7.76
S&P 500	3,663.46	-35.66	-0.96	1.65	13.39	16.95
NASDAQ	12,377.87	-86.36	-0.69	0.75	37.95	43.66
S&P MidCap 400	2,239.94	-5.00	-0.22	1.49	8.58	11.34

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.12	Euro/Dollar	1.21	-0.28
5-Year	0.36	Dollar/Yen	103.94	-0.24
10-Year	0.89	GBP/Dollar	1.32	-1.94
30-Year	1.63	Dollar/Cad	1.28	-0.25

Source: Bloomberg/FactSet

What Caught Our Eye This Week

As the end of the year and a new decade approaches, it is interesting to review the wild year we have witnessed in the stock market and to contemplate what the future might hold for investors. The pandemic and health crisis that kept many at home tethered to phones and computers has fueled robust earnings growth for the largest (and most popular) stocks in the market indices. Historically-low interest rates may temporarily justify lofty price/earnings multiples since the value of a dollar made in the future is roughly equal to the value of a dollar made today. Low-cost money has distorted traditional valuation relationships enhancing the relative multiples of large cap growth names versus small and cyclical companies. The top six companies in the S&P 500 represent 25% of the index and 77% of its gains over the 12 months through September. These firms sell for an average of 34x their forward earnings in comparison to 22x for the entire S&P 500 index, 18x for the Russell 2000 index, and just 15x for the Russell 2000 Value index. As the global economy recovers, demand grows, interest rates likely rise and perhaps investments undergo some regression in P/E multiples. It would not be unreasonable for investors to expect the dominance of top growth companies to wane and performance to shift in favor of value and small-cap companies going forward.

Economy

This week the economic data centered around inflation statistics with the release of the CPI and the PPI. On Thursday, the consumer price index came in above expectations with an increase of 0.2% in November. The "core" CPI also advanced 0.2% and is now up 1.6% year-over-year. Consumer prices are now up at the fastest six-month pace in nearly a decade. The producer price index was released on Friday and posted a 0.1% increase in November, while the "core" PPI also gained 0.1%. Over the past twelve months, the PPI is up 0.8% and the "core" PPI is up 1.4%. Energy prices led the headline figure, gaining 1.2% during the month. Earlier in the week, the JOLTS report (job openings and labor turnover survey) showed 1.7 million layoffs in October and 5.8 million hires. Total job openings are now at 6.7 million, the "quits" rate was little changed at 2.2%, and over the past twelve months there is now a net employment loss of 5.7 million.

Fixed Income/Credit Market

A confluence of events this week had a unique impact on U.S. ETF fund flows, making fixed income investor sentiment very difficult to gauge. An uptick in global virus cases and lockdowns, Brexit negotiations, a perceived stalemate in U.S. stimulus talks, negative yields, and uncertainty surrounding the Fed's asset purchase plans coming out of next week's FOMC meeting impacted fund flows in a variety of ways. U.S. ETF fund flows by asset class saw corporate bond and government bond funds decrease by approximately $3B and $760.6MM (market cap decreases of 0.9% and 0.4%), respectively. Bank loans, emerging markets, and municipal bonds saw net inflows of $268.5MM, $309.3MM, and $653.7MM, equating to market cap increases of 3.4%, 1.2%, and 1.1%, respectively. In terms of credit quality, high yield funds experienced net outflows of approximately $1.5B, a 1.6% decrease in its market cap. Investors also pulled $284.8MM from ultra-short duration funds, equating to a market cap decrease of 0.3%. Conversely, long-term funds added 1.1% to their market caps with net inflows of $548.5MM.

Equities

Domestic large-cap equities declined this week after posting two consecutive weeks of strong gains. With that said, the S&P 500, Nasdaq and Russell 2000 still finished at new all-time closing highs on Tuesday. Most of the news focused on the potential for a new coronavirus relief package. Multiple reports discussed how the White House proposed a $916 billion stimulus deal that included money for state and local governments (a Democratic priority) and liability protections for businesses (a Republican priority). This also includes $600 stimulus checks. Both parties are now largely in agreement on the size of the package, but liability protections, state and local government aid and stimulus checks versus enhanced unemployment benefits remain the key points of divergence. Vaccine optimism and resilient corporate earnings have been strong tailwinds for stocks, but many headwinds such as the rising new coronavirus case growth, hospitalizations, and the slowdown in high-frequency economic data remain.

Our View

The IPO market is red hot. More than $155 billion has been raised in IPOs in 2020, which is a record according to Dialogic. DoorDash and Airbnb both came public this week and surged 86% and 112%, respectively, on their first day of trading. DoorDash, a seven-year old startup that coordinates the delivery of food from local restaurants, now has a market cap of $72 billion. The company lost $667 million in 2019 and $149 million if the first three quarters of 2020. The food delivery business is becoming a relatively crowded space with Grubhub, Uber Eats and Instacart as the barriers to entry are low. By comparison, FedEx the logistics and delivery firm has been in business since 1971, and over the last twelve months has had revenue of $71.5 billion and profits of $1.8 billion. FedEx's market capitalization at $78.5 billion is only slightly higher than DoorDash. Airbnb, the online vacation travel business that matches vacationers with rental properties, faced significant challenges this year due to the pandemic. In fact, earlier this year, Airbnb had to borrow $2 billion to bolster cash reserves. Moreover, they slashed their marketing budget and laid off a quarter of their workforce. The company has still not made money in any annual period, but Airbnb now has a market cap of $99 billion, which is larger than the combined market value of Marriott, Hilton and Hyatt Hotels combined. What is this saying about the current investment environment? In our opinion, the sizzling IPO market is an indication of speculation and a "fear of missing out" mindset that can allow valuations to become more loosely tethered to reality. It is the reason that the forward price-to-earnings multiple on the Russell 1000 Growth index is trading at 31 times and 12 multiple points higher than the Russell 1000 Value index. Moreover, several sentiment gauges suggest that investor sentiment has become extremely bullish. The percent of stocks trading above their 200-day moving average (86%) is at the highest level in almost 10 years, according to Barchart. We believe that we are in a multi-year economic recovery period that should be supportive to equities. However, that does not mean the market won't at times be ahead of itself and subject to short-term corrective phases. Given the state of the IPO market and investor sentiment readings, we would not be surprised to see the market consolidate recent gains.

COMING UP NEXT WEEK		**Consensus**	**Prior**
12/15 Industrial Production SA M/M	(Nov)	0.30%	1.1%
12/16 Retail Sales ex-Auto SA M/M	(Nov)	0.25%	0.20%
12/16 Retail Sales SA M/M	(Nov)	-0.20%	0.30%
12/16 Markit PMI Manufacturing SA (Preliminary)	(Dec)	56.3	56.7
12/17 Housing Starts SAAR	(Nov)	1,523K	1,530K

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