Peapack Private Wealth Management

May 29, 2020

5/29/2020		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	25,383.11	917.95	3.75	2.56	-11.06	0.14
S&P 500	3,044.31	88.86	3.01	1.99	-5.77	8.63
NASDAQ	9,489.87	165.29	1.77	0.90	5.76	24.75
S&P MidCap 400	1,763.95	68.62	4.05	1.99	-14.50	-4.35

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.15	Euro/Dollar	1.11	2.14
5-Year	0.30	Dollar/Yen	107.74	0.24
10-Year	0.65	GBP/Dollar	1.24	1.42
30-Year	1.41	Dollar/Cad	1.38	-1.50

Source: Bloomberg/FactSet

What Caught Our Eye This Week

As recently as early May, estimates were for advertising spending across all channels to decline by 16.7% this year. As brands adapt to new consumer behaviors amidst the pandemic and reassess what to have in market, cutting back on certain expenses is a natural reaction. Less competition for digital adspace and excess ad inventory has driven down the cost of digital advertising, creating a buyers' market (e.g., the price of a Facebook ad dropped by 35 to 50 percent from pre-pandemic levels). The ensuing drop in demand and increased usage of streaming media (Hulu, YouTube, etc.) and television are creating an interesting opportunity for those companies still able to spend on advertising as they are able to make their dollars more efficient. Pivotal Research notes that lower effective costs per mille (or eCPM — the amount paid by an advertiser to a website's publisher for every thousand people who see its ads) represents higher returns on ad spend. Digital advertising offers companies a way to keep their brand awareness high so that when consumers are ready to start spending money again, they remain top of mind.

Economy

The most anticipated report this week was the durable goods report, which was released on Thursday. Overall new orders for durable goods plunged 17.2% in April led by the volatile transportation sector. Core capital goods orders declined by 5.8% and core capital goods shipments dropped by 5.4%. At this juncture, it appears real equipment spending could be down close to 20% in Q2. Also on Thursday the 2nd look at Q1 real GDP showed a revision from -4.8% to -5.0%. Personal spending declined by 6.8% at an annual rate in Q1, and corporate profits tumbled 13.9%. The final look at Q1 real GDP will be on June 25th. Initial jobless claims were reported on Thursday and these figures increased by 2.1 million during the week ending May 23rd. Claims have now moved lower for 8 straight weeks, and the number of workers receiving jobless payments for the week ended May 16 was 21.1 million, down 3.9 million from the prior week. Finally, on Friday personal income/spending was reported for April and real consumer spending plunged 13.2% but nominal personal income surged 10.5% (transfer, stimulus & unemployment insurance payments).

Fixed Income/Credit Market

On Thursday, new issue investment-grade (IG) corporate debt surpassed $1 trillion which is the fastest pace on record. The deluge of primary market supply has been facilitated by cheap financing costs and the Fed stepping in to support the credit markets with a $750B backstop for corporate borrowers. While the Fed has yet to purchase individual corporate bonds, the notion that the Fed could lend money to corporate America reinvigorated bond investors who were concerned about corporate insolvencies and liquidity on the secondary market. Since the Fed's announcement to support U.S. corporations on March 23rd, demand has skyrocketed, and IG credit spreads have rallied back 198 basis points (bps) providing investors with a total return of 13.9%. Prior to the Fed's announcement, the Bloomberg Barclays U.S. Corporate Bond Index had returned -10.6% year-to-date (YTD) the week ended March 20th. Given the dramatic market rebound, year-to-date the index has provided an aggregate total return of 2.54%.

Equities

It was another strong week for domestic equities with the S&P 500 closing above the 3,000 level for the first time since March 5th. On Tuesday, value stocks posted strong gains as companies leveraged to the reopening of the economy outperformed those leveraged to the stay and work-from-home themes. The same factor rotation persisted on Wednesday with cyclical and value stocks outperforming growth and momentum stocks. The Russell 1000 Value Index outperformed the Russell 1000 Growth Index by 2.2% this week. Aside from the regularly cited reasons for the recent rally in stocks, investors' attention was focused on the escalating U.S. and China tensions stemming from Beijing's proposed security measures in Hong Kong. On Friday, President Trump held a news conference and investors' concerns appeared to be put at ease as Trump did not indicate the U.S. would pull out of the phase one trade agreement reached with China earlier this year. All sectors finished the week in the green with the financial sector posting the strongest gains (+6.6%) due to a surge in bank stocks.

Our View

There are 158 days until the United States presidential election with many additional national offices and governorships at stake. Given the proximity to such an important election, most issues that rise to the level of national interest will be seen from a political framework. This will certainly occur regarding the state of the economy and the government's response to the coronavirus. The rhetoric and tension between the U.S. and China have risen recently due to the Covid-19 pandemic. As the death toll in the U.S. from the coronavirus passed 100,000 this week, many in Washington are blaming the Chinese for making the situation worse by not being transparent when the health crisis began. No candidate wants to be seen as "politically soft" on China. With this as a back-drop, the Chinese approved a controversial national security law that bans secession, subversion, terrorism, foreign intervention, and would allow China's state security agencies to operate openly in Hong Kong. Secretary of State Mike Pompeo announced that the U.S. State Department no longer considers Hong Kong to have any significant autonomy. The Trump administration will take countermeasures that will continue to amplify the tension. The financial markets need to be concerned that the back-and-forth between the U.S. and China will devolve into a mutually destructive effort to punish each other and will prove damaging to the nascent economic recovery. Leaders in both countries are unlikely to publicly backdown due to the internal political ramifications, but they also understand the economic realities and consequences of rekindling the trade war. The global economy is fragile and the two largest, most dynamic major economies in the world need to lead the path forward. We expect harsh language from both sides, and sanctions that will allow political leaders on both sides to display "toughness." But whatever measures are ultimately implemented, we do not believe they will be economically significant. The political and economic stakes are too high. The tension may however be sufficient reason for the market to consolidate recent gains.

COMING UP NEXT WEEK		Consensus	Prior
06/01 ISM Manufacturing SA	(May)	43.2	41.5
06/03 Factory Orders SA M/M	(Apr)	-15.4%	-10.4%
06/03 ISM Non-Manufacturing SA	(May)	43.9	41.8
06/04 Productivity SAAR Q/Q (Final)	(Q1)	0.10%	-2.5%
06/05 Nonfarm Payrolls SA	(May)	-9000K	-2053K
06/05 Unemployment Rate	(May)	19.3%	14.7%

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