PEAPACK PRIVATE
Wealth Management

The Weekly
Economic & Market Recap

Peapack Private Wealth Management

May 8, 2020

5/8/2020		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	24,331.32	607.63	2.56	2.67	-14.74	-6.29
S&P 500	2,929.80	99.09	3.50	2.07	-9.32	1.59
NASDAQ	9,121.32	516.37	6.00	0.94	1.66	14.54
S&P MidCap 400	1,676.18	85.70	5.39	2.08	-18.75	-13.54

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.14	Euro/Dollar	1.09	-1.24
5-Year	0.32	Dollar/Yen	106.43	-0.44
10-Year	0.68	GBP/Dollar	1.25	-0.71
30-Year	1.38	Dollar/Cad	1.39	-1.07

Source: Bloomberg/FactSet

What Caught Our Eye This Week

The New York Fed's Center for Microeconomic Data released the Quarterly Report on Household Debt and Credit for the 1st quarter 2020 this week. It shows a glimpse of the consumer just before the pandemic and the lockdown of the U.S. economy. Americans increased their borrowing for the 23rd straight quarter to a total of $14.3 trillion, which is approximately $1.6 trillion higher than the previous peak of $12.68 trillion in the 3rd quarter of 2008. The report showed that total household debt increased over 1.1% in the 1st quarter from the previous quarter. Mortgage debt, the largest component of household debt in the U.S., jumped by $156 billion to $9.7 trillion. Credit card balances declined by $34 billion but are still in excess of $1 trillion. The drop in credit card debt helped offset non-housing balance increases in student loans and auto debt, which climbed by $27 billion to $1.54 trillion and by $15 billion to $1.35 trillion, respectively. The fact that consumer spending accounts for roughly 68% of total economic output makes the $22 trillion U.S. economy heavily reliant on consumers purchasing goods. How consumers react as states start to reopen will be critical to how the economy recovers.

Economy

The most anticipated report this week was the nonfarm payroll report, which was released on Friday. This report showed payrolls plunging by 20.5 million in April, and there were negative revisions of 214,000 jobs made to the February and March reports. The unemployment rate increased to 14.7% from 4.4%, and the U-6 measure of unemployment rose to 22.8%. Average hourly earnings rose by 4.7% and the year-over-year gain is now at 7.9%. This dramatic increase largely reflects the substantial job loss among lower-paid workers. The labor force participation rate dropped to 60.2%, the lowest mark since 1973. Examining the different employment sectors, leisure and hospitality lost 7,653,000 jobs, education and health lost 2.5 million jobs, and retail shed 2.1 million jobs. Overall the number of unemployed persons increased by 15.9 million to 23.1 million in April. In other news this week the ISM manufacturing survey declined from 52.5 to 41.8 in April. The new orders index dropped from 52.9 to 32.9, and the business activity index plunged to 26.0. In total, 16/18 industries contracted in April.

Fixed Income/Credit Market

On Wednesday, Treasury Secretary Steve Mnuchin announced plans to fund the U.S. government using longer-dated securities much to the satisfaction of U.S. Treasury (UST) debt investors. The sale of longer-dated securities will give buyers an opportunity to earn a term premium as yields on the front-end of the UST curve continue trading at historic lows. As the U.S. Treasury deficit approaches roughly $4 trillion, Mr. Mnuchin revealed that Treasury will increase the size of 10-year and 30-year securities by $7B and $5B, respectively. The bigger surprise is the $20B auction (May 20th) for the revived 20-year bond which is somewhere between $6B to $8B more than analysts expected. As investors began selling longer-dated Treasuries to make room for the unanticipated auction sizes, the yield curve immediately steepened. Intraday, the 10-year Treasury yield increased 7 basis points (bps) to 0.73%, while the 30-year tenor backed up 10 bps to 1.43%. The spread between the 2-year and 10-year benchmarks hit 53.2 bps, its steepest level since early 2018 save for a few turbulent days in mid-March.

Equities

Equities performed well this week with the broader market closing up 3.5% for the week as stocks posted gains for 4 out of 5 trading days. U.S.-China relations were watched by investors this week, as tensions between the two countries grew more hostile. On Monday and Tuesday, accusations that China covered up the full extent of the COVID-19 outbreak and that the virus was engineered in a Wuhan laboratory infuriated Chinese officials and prompted President Trump to question China's commitment to the Phase One Trade Deal. Tensions ultimately calmed in the back half of the week with both sides acknowledging on Friday that good progress is being made, and that they fully expect all obligations to be met. Investors have also been digesting U.S. officials' plans to reopen the country. With Democrats and Republicans disagreeing on the best approach, many questions still remain on when and how the economy will fully restart. Despite the ambiguity however, since its March low, the S&P 500 has increased 25% - an incredible bounce back given the nation's high unemployment numbers and general uncertainty facing most businesses.

Our View

With economies gradually embarking on the long and uneven road to reopening, people around the world are wondering what the future may hold given the dramatic lifestyle changes that have come about to combat the pandemic. The recent risk-on sentiment in the equity market, which was largely induced by massive amounts of fiscal and monetary policy accommodation, may be masking the fact that the journey to a full recovery could be years from now. The best case study available to gauge what the path forward might resemble may come from China. With the coronavirus originating in the city of Wuhan back in the later stages of 2019, China was the first country to confront the virus. China moved rapidly to suppress the outbreak by locking down cities in late January of this year. The lockdown had a tremendous impact on economic activity with the Chinese Composite PMI dropping precipitously from 53.0 in January (anything above 50 signifies expansion) to a dismal 28.9 in February. However, with lockdown measures easing in certain parts of China in March, the Composite PMI re-bounded back to 53.0. At a surface level, it appears that China successfully contained the coronavirus within the first quarter of this year, but many believe their numbers are misstated. Moreover, it is certainly suspect that China's population is four times the size of the U.S. but they reported one-fifteenth the amount of coronavirus cases. Therefore, a better indication of the true health of the Chinese economy is commentary of Chinese operations through first quarter U.S. company earning reports. Generally speaking, consumer-oriented companies have reopened a majority of their stores, but capacity has been limited, store hours have been reduced and consumers have been cautious to spend. In order to incentivize consumer spending, the Chinese government has expanded unemployment benefits and issued spending vouchers to many of its citizens, but the Chinese consumer is showing signs of trepidation and may not resume their previous spending patterns anytime soon. The abrupt evolution of the global recession does not foretell a rapid recovery at this point, but progress is certainly being made.

COMING UP NEXT WEEK		Consensus	Prior
05/12 CPI SA M/M	(Apr)	-0.70%	-0.40%
05/13 PPI SA M/M	(Apr)	-0.40%	-0.20%
05/15 Retail Sales SA M/M	(Apr)	-10.0%	-8.4%
05/15 Industrial Production SA M/M	(Apr)	-11.0%	-5.4%
05/15 Michigan Sentiment NSA (Prelim)	(May)	66.0	71.8