Peapack Private Wealth Management

The Weekly
Economic & Market Recap

Peapack Private Wealth Management

April 24, 2020

4/24/2020		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	23,775.27	-467.22	-1.93	2.73	-16.69	-10.81
S&P 500	2,836.74	-37.82	-1.32	2.14	-12.20	-3.30
NASDAQ	8,634.52	-15.62	-0.18	0.99	-3.77	6.33
S&P MidCap 400	1,550.37	-11.06	-0.71	2.28	-24.85	-21.33

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.21	Euro/Dollar	1.08	-0.70
5-Year	0.36	Dollar/Yen	107.44	-0.08
10-Year	0.59	GBP/Dollar	1.23	-1.33
30-Year	1.17	Dollar/Cad	1.41	0.36

Source: Bloomberg/FactSet

What Caught Our Eye This Week

The pressures on state finances from the pandemic are mounting. States' two largest sources of tax revenue are personal income tax and sales tax. In previous downturns, sales taxes have provided a relatively stable source of revenue for states, helping to smooth the ups and downs in taxes collected from capital gains and personal income. Although consumers pay sales tax when they make a purchase, businesses do not remit those dollars to states immediately. Instead, they are typically required to make monthly payments that are due toward the end of the month after the one in which the purchases are made. As a result, consumer spending declines that began in March will begin to impact state revenue in late April. In addition, many states have extended their income tax filing deadlines past the end of their fiscal year (July 1). With key revenue sources at risk of decline starting in April, states' current year budgets could fall out of balance in the final few months of the fiscal year and impact future fiscal year budgets. States, 49 of which are required to balance their budget every year, do not have the luxury of deficit spending like the federal government does. While Congress has already appropriated $150 billion in emergency funding to the states through the CARES Act, many governors estimate that they will need between $300 billion to $1 trillion.

Economy

The most anticipated report this week was the durable goods report, which was released on Friday. Overall new orders for durable goods decreased by 14.4% in March led by a massive decline (-295.7%) month-over-month in commercial aircraft orders. Core capital goods orders increased by 0.1% and core capital goods shipments dropped by 0.2%. At this juncture, it appears real equipment spending will plunge by 17% on a seasonally adjusted annual rate in Q1. On Tuesday, existing home sales data showed a decline of 8.5% to 5.27 million units at an annual rate in March. This drop was the largest since November of 2015. Inventories are down 10.2% year-over-year, and have declined for 10 consecutive years. New home sales were reported on Thursday and declined by 15.4% in March. These sales are down 9.5% year-over-year, and the median sales price is now at $321,400. Jobless claims increased by 4.43 million during the week ending April 18th and claims have now fallen for 3 straight weeks. Total claims for the past five weeks total more than 26 million.

Fixed Income/Credit Market

The benchmark 10-year AAA Bloomberg Callable Curve has rallied back close to its year-to-date (YTD) average of 1.34% to approximately 1.29%, down from a YTD high of 2.87% on March 23rd. The move on the front-end of the AAA benchmark curve has been more pronounced with the 2-year tenor dropping back to approximately 0.86%, 14 basis points (bps) below the YTD average and 192 bps below its YTD peak of 2.78% on March 20th. Despite the drop in municipal yields, the sector still looks attractive from a historical perspective when viewing the 10-year AAA municipal bond ratio given the precipitous drop in U.S. Treasury yields. The 10-year AAA muni bond ratio is currently at 209.3%, down from a YTD high of 365% on March 23rd but still well above the yearly average of 133.1%. For New Jersey investors in the highest tax bracket, the municipal bond sector provides attractive, high-quality investment opportunities. On Tuesday a Moody's Aa2 10-year deal priced at 1.65% which equates to 3.06% on a taxable equivalent yield basis.

Equities

Despite closing up 3 out of 5 trading days this week, U.S. domestic equities finished down -1.32% for the week, snapping two consecutive weeks of gains. The top headline this week was oil's dramatic price drop on Monday. For the first time in history, as the May futures contract approached its Tuesday expiration date, the price of oil closed with a negative settlement. At prices below $0, sellers had to pay buyers to take delivery of the commodity. The reason for the price decline stemmed from tight storage capacity and continuing weak demand caused by Covid-19. The S&P 500 was down early in the week although stocks did recover some of the losses as oil partially rebounded and investors became more optimistic about reopening the economy. On Friday, President Trump signed into law a $484 billion "Phase 3.5" relief package which will replenish the funds designated for small businesses and hospitals in need of assistance. For the week, energy was the top performer (+1.67%), while real estate was the laggard (-4.35%).

Our View

The emotional, physical and economic hardship that Covid-19 has inflicted on people around the world has been immense to say the least. The disease has now infected roughly to 2.8 million individuals globally, which is presumably an understatement due to asymptomatic carriers and a lack of adequate testing in certain portions of the globe. With the absence of a medical solution to Covid-19, social distancing and lockdowns have been implemented in an effort to slow the spread of the disease and flatten the curve. Here in the United States the economic impact has been devastating even with the massive fiscal and monetary stimulus that has been enacted thus far. Furthermore, working Americans have a bleak outlook at this point with 25% believing they are likely or fairly likely to lose their jobs in the next 12 months according to a Gallup poll. The previously mentioned statistic is not surprising given the total number of people filing for unemployment insurance over the last five weeks has climbed to a staggering 26.5 million. The only way to truly heal the economy is to open it back up, but to do so without herd immunity poses significant challenges. Therefore, the guidelines for reopening the American economy are based upon data driven criteria at the state and regional level, preparedness to meet the medical needs if the virus reemerges and phased guidelines that will be followed at the local level. The reopening process will not be immediate, nor will it be linear, but it will take time and encounter numerous hurdles along the way. A key to the reopening process will be mass testing and tracking to identify, isolate and monitor any new Covid-19 outbreaks. The good news is that the daily growth rate of Covid-19 cases appears to have peaked in the U.S. and there is some light at the end of the tunnel. Also, with approximately 83 Covid-19 vaccines currently in development globally, a medical solution is becoming more probable and could add a well needed tailwind to reopening the economy.

COMING UP NEXT WEEK		**Est.**
04/28 Consumer Confidence	(Apr)	82.5
04/29 GDP SAAR Q/Q (First Preliminary)	(Q1)	-4.1%
04/30 Personal Consumption Expenditure SA M/M	(Mar)	-5.3%
04/30 Personal Income SA M/M	(Mar)	-1.0%
05/01 ISM Manufacturing SA	(Apr)	36.0

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