Peapack Private Wealth Management

April 17, 2020

4/17/2020		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	24,242.49	523.12	2.21	2.67	-15.05	-8.36
S&P 500	2,874.56	84.74	3.04	2.11	-11.03	-1.12
NASDAQ	8,650.14	496.57	6.09	0.99	-3.59	8.12
S&P MidCap 400	1,561.43	-24.94	-1.57	2.28	-24.31	-20.48

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.19	Euro/Dollar	1.09	-0.45
5-Year	0.37	Dollar/Yen	107.52	-0.90
10-Year	0.65	GBP/Dollar	1.25	0.28
30-Year	1.27	Dollar/Cad	1.40	0.57

Source: Bloomberg/FactSet

What Caught Our Eye This Week

With the financial markets focusing on economic data, the start to Q1 earnings season, and the President's unveiling of a multi-phase plan for "Opening up America Again," investors are trying to envision the implications for the global economy coming out of the Coronavirus/COVID-19 crisis. While it would be bold to predict how things will look months or years from now, economists suggest that crises have a way of bringing to light long-lasting, unaddressed weaknesses within our system. One likely change is a de-emphasis of globalization, a trend that may have already been underway. Trade as a percent of global GDP peaked in 2008 and, countries are less certain they wish to remain part of the flat, inter-connected world in which they are heavily dependent on one another for the exchange of goods. The lack of alternative trading partners and redundancy in supply chains became an acute pain point for many countries and companies during the tariff negotiations with China over the past few years. Of even greater importance to nations may be the ability to manufacture critical goods such as medical equipment and pharmaceuticals in their home country to ensure enough inventory on hand to quickly meet any surge in demand.

Economy

The economic story continues to be dominated by the labor force, initial jobless claims and the loss of aggregate demand. On Thursday weekly jobless claims increased by 5.25 million during the week ending April 11th. This most recent figure was better than expected, and overall the level of filings has declined for two straight weeks (6.87 million was the level 2 weeks ago). Since mid-March about 13% of the labor force has sought jobless assistance. In the past three weeks the share of workers covered by the unemployment insurance system who are receiving benefits has increased to 8.2% from a record low of 1.2%. To put this number in perspective the highest level in the past 50 years was 7.0% in 1975. Retail sales figures for March were reported on Wednesday and collapsed by 8.7%. This was the largest decline since records began in 1992, and was led by bars and restaurants, apparel and motor vehicle sales. Not surprising, grocery stores (^26.9%) and non-store retailers (^3.1%) made positive contributions. Also on Wednesday industrial production figures dropped by 5.4% in March, which was the biggest monthly drop since 1946. Manufacturing output led the way declining by 6.3%.

Fixed Income/Credit Market

Week-over-week yields across the U.S. Treasury curved decreased anywhere from 2.2 basis points (bps) to 15.8 bps. Uncertainties surrounding the reopening of the U.S. economy, demand for safe-haven bonds, and the Federal Reserve's unprecedented asset purchase program continued to put downward pressure on interest rates. The interest rate moves flattened the spread between the 2-year and 10-year tenors 5 bps to 44.4 bps, approximately 3 bps below the average of 47.4 bps. Accommodative action by the Fed has also helped restore some confidence in the corporate bond market. The Bloomberg Barclays U.S. Investment-Grade and High Yield indices are currently trading at 210 bps and 729 bps, respectively, down from peaks of 373 bps and 1,100 bps on March 23rd. Furthermore, on the week IG 5-year AA, A, BBB-rated composite spreads have decreased 7.6, 18.5, and 24.9 basis points, respectively. HY 5-year BB and B-rated composite spreads decreased 38.5 and 52.3 bps, respectively.

Equities

All three major domestic equity indices closed in positive territory for the week. News over the weekend surfaced that OPEC+ reached an agreement to cut oil production by approximately 10 million barrels per day. Despite this news, oil prices continued to fall before sharply rallying approximately 36% at the end of the week. Stocks lifted Tuesday as optimism grew that the U.S. economy may open soon. The market gave back Tuesday's gains after investors reacted to weak corporate earnings reports and economic data. Although unemployment claims were poor on Thursday, markets closed higher as investors digested President Trump's guidelines for restarting the U.S. economy. The market gained approximately 2.7% on Friday, as optimism over an effective treatment for COVID-19 emerged and amplified investors hopes for resumption of normal activity. The top performing sector this week was consumer discretionary up 7.9%. The worst performing sector this week was financials down 4.2%.

Our View

The reality of the recession is starting to bleed through into the economic data. High-frequency data series such as unemployment claims reflected the significant and sudden impact the coronavirus has inflicted on the economy. This week another 5.25 million people filed for unemployment benefits. Over the last four weeks, 22 million new claims have been filed implying that the unemployment rate is currently a staggering 16%. A few March economic reports came out recently indicating how widespread the economic damage has become. Industrial production plunged 5.4% m/m, which was the sharpest contraction since 1946. Several regional Fed surveys (Empire and Philly) suggest that the collapse of the industrial economy will continue through the second quarter. The U.S. economy at its core is led by consumer activity, and with the job destruction over the last month, consumer demand will inevitably be severely affected. Real consumption fell by approximately 5% annualized in the first quarter, and in March, headline retail sales saw their sharpest monthly drop on record. We expect the economic data to continue to worsen as the recession deepens. The scope of the economic damage and potential residual risks to the economy are not lost on the Federal Reserve and federal government officials, who have combined to commit more than $6 trillion to arrest the economic recession caused by the pandemic. To understand the magnitude of the government's response, consider that it is larger than the entire GDP of the U.S. economy in the fourth quarter. The nonpartisan Committee for a Responsible Federal Budget projects that the combination of the stimulus spending and the recessions' effect on federal revenues will cause a budget deficit of $3.8 trillion this year. The response, particularly by the Fed, has been unprecedented in both the size and scope. The government initiatives and a seemingly flattening of the coronavirus case curve have provided temporary relief to markets allowing for a powerful rally. Opening the economy will take time and will be difficult given the uncertainty created by the virus. The prospects for the equity market's continuing recovery depend on a medical solution limiting the fear of the virus and a fully functioning economy.

COMING UP NEXT WEEK		Est.
04/21 Existing Home Sales SAAR	(Mar)	5,465K
04/23 Initial Claims SA	(04/18)	3,500K
04/23 New Home Sales SAAR	(Mar)	660.0K
04/24 Durable Orders SA M/M (Preliminary)	(Mar)	-11.0%
04/24 Michigan Sentiment NSA (Final)	(Apr)	71.0

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