Peapack Private
Wealth Management

The Weekly
Economic & Market Recap

December 18, 2020

12/18/2020 STOCKS	Close	Wk Net Change	Wk % Change	Div Yield	YTD % Change	12 Mos % Change
DJIA	30,179.05	132.68	0.44	2.04	5.75	6.76
S&P 500	3,709.41	45.95	1.25	1.63	14.81	16.19
NASDAQ	12,755.64	377.77	3.05	0.73	42.16	44.57
S&P MidCap 400	2,287.26	47.32	2.11	1.48	10.87	11.84

TREASURIES	Yield	FOREX	Price	Wk %Change
2-Year	0.11	Euro/Dollar	1.22	1.05
5-Year	0.38	Dollar/Yen	103.40	-0.53
10-Year	0.95	GBP/Dollar	1.35	2.07
30-Year	1.69	Dollar/Cad	1.28	0.04

Source: Bloomberg/FactSet

What Caught Our Eye This Week

The fear of inflation and the declining purchasing power amidst massive stimulus spending is driving people to a different store-of-value asset, bitcoin. Bitcoin hit new highs this week as new investors drove up the price. The reasons for its appreciation vary but bitcoin has grown from what was once considered a scam by many into something that has matured into a viable method of exchange. The confidence showcased by large institutional players by both their offering of crypto-related products as well as investment into bitcoin speaks volumes. So far this year, bitcoin has appreciated approximately 185%. The infrastructure is in place and continuing to grow as more exchanges (Chicago Mercantile Exchange and Chicago Board Options Exchange) launch new markets for products linked to cryptocurrencies. A few months ago, PayPal announced it would allow its account holders to buy, hold and sell cryptocurrencies. Furthermore, their customers will also be able to use cryptocurrencies to shop at the 26 million merchants on its network starting early next year. 2020 has given bitcoin more legitimacy and in 2021 it will try to gain traction as an actual currency.

Economy

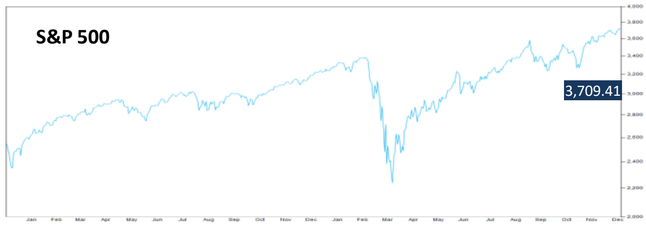
The most anticipated report this week was the retail sales report, which was released on Wednesday. Retail sales decreased 1.1% in November, disappointing expectations. In addition, October retail sales were revised lower registering a loss of 0.1%. This is further evidence that virus related developments have been weighing on consumer behavior. The “control” category, which excludes food service, autos, gas and building materials declined 0.5%. This is the second straight monthly decline for the “control” group and overall retail sales are up 4.1% year-over-year. In other news this week industrial production gained 0.4% in November, while manufacturing output increased 0.8%. Industrial production is still down 5% from February levels and manufacturing is down 4%. On Thursday housing starts increased 1.2% in November to 1.547 million units at an annual rate. Single family starts and permits increased 0.4% and 1.3%, respectively. Finally, and for a second straight week, jobless claims increased to 885,000 during the week ending December 12th. This is the highest level for claims since September, when 893,000 workers applied for jobless benefits.

Fixed Income/Credit Market

Approximately $18 trillion of global fixed income securities are trading at negative interest rates which leaves many wondering if the U.S. could potentially follow suit. The U.S. Federal Reserve has vehemently spoken out against using negative yields as part of their toolkit for accelerating U.S. growth and inflation. This week’s FOMC meeting focused on whether or not the Fed would extend the weighted average maturity (WAM) of asset purchases to put downward pressure on long-term interest rates, however, short-dated Treasury yields did not receive much attention, particularly Treasury Bills (T-Bills). According to Bloomberg, a confluence of events (a sharp decline in T-Bill issuance and increased bank reserves) could create a supply-demand imbalance, which if left unaddressed could drop rates to 0%. Such a scenario could have severe consequences for the money-market industry. Year-to-date, the 3-month T-Bill has decreased roughly 147 basis points from 1.55% to 0.08%. In 2021, the Fed may inadvertently have to change the composition of its WAM to stave off 0% yields by selling short-term securities or allowing short-term bonds to roll-off its balance sheet.

Equities

Domestic equities spent most of the week heading higher with all three major indexes setting new record high closings on Thursday. Investors continued to be keenly focused on the prospect for a new coronavirus relief package. As of Friday, according to FactSet, the market is expecting a deal worth around $900 billion featuring $600 stimulus checks, $300 per week in additional unemployment benefits through March, and around $325 billion for small businesses. Although the talks appear to be heading in the right direction, several issues have slowed down progress and there may not be an agreement until this weekend or early next week. In other news, the first inoculations in the U.S. were given on Monday with Pfizer and BioNTech’s vaccine; and on Thursday evening, the Food and Drug Administration (FDA) approved Moderna’s Covid-19 vaccine – a key step towards public distribution approval by the FDA. The growth trade saw a resurgence this week with the Russell 1000 Growth Index gaining 2.98% while the Russell 1000 Value Index increased only 0.21%. With that said, value has outperformed growth by 4.08% quarter-to-date.



Our View

There is a high probability that a vast number of individuals will feel a sense of jubilation as this year ends based upon the hope that is building for the year ahead after the hardships and pain many have endured due to the pandemic of 2020. Financial markets, which were severely dislocated back in March, have found increased stability due to enormous fiscal and monetary policy support. Moreover, the FOMC convened this week and the key takeaway from their statement is that the Fed has no intentions of tightening financial conditions anytime soon, which should act as a continued tailwind for markets and the economy. Moreover, the Fed “will continue to increase its holdings of Treasury securities by at least $80 billion per month and of agency mortgage-backed securities by at least $40 billion per month until substantial further progress has been made toward the Committee’s maximum employment and price stability goals.” According to the Fed’s updated summary of economic projections, the forecast for core PCE inflation has increased 10 basis points (bps) in each of the next two years but is not expected to reach 2% until 2023. Although current labor market conditions have deteriorated due to the latest surge in COVID-19 cases, the Fed is more optimistic about the future condition of the labor market compared to their projections back in September. Their current projection is that the unemployment rate will reach 3.7% three years from now. It was widely anticipated that the Fed may alter the duration of their purchases moving forward to apply downward pressure on the long end of the yield curve. However, with the 10-year U.S. Treasury yield residing below 1% over roughly the past nine months, the Fed decided to reserve extending the duration of its assets until a more appropriate time. Tremendous progress has been made with respect to medical solutions to combat COVID-19 and with the rollout of vaccines it is our belief that herd immunity should be established in the second half of 2021. Should the previously mentioned statement come to fruition, the Fed may need to pull forward their economic projections.

COMING UP NEXT WEEK		Consensus	Prior
12/22 Consumer Confidence	(Dec)	97.0	96.1
12/23 Personal Consumption Expenditure SA M/M	(Nov)	0.30%	0.50%
12/23 Personal Income SA M/M	(Nov)	-0.30%	-0.70%
12/23 Michigan Sentiment NSA (Final)	(Dec)	76.9	81.4P
12/23 New Home Sales SAAR	(Nov)	990.0K	999.0K
12/24 Durable Orders SA M/M (Preliminary)	(Nov)	0.50%	1.3%
12/24 Initial Claims SA	(12/19)	810.0K	885.0K