Peapack Private
Wealth Management

The Weekly
Economic & Market Recap

June 18, 2021

6/18/2021		Wk Net	Wk %	Div	YTD %	12 Mos %
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	33,290.08	-1189.52	-3.45	1.81	8.77	27.65
S&P 500	4,166.45	-80.99	-1.91	1.39	10.92	33.74
NASDAQ	14,030.38	-39.05	-0.28	0.67	8.86	41.11
S&P MidCap 400	2,611.94	-140.23	-5.10	1.32	13.24	45.69

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.25	Euro/Dollar	1.19	-2.10
5-Year	0.88	Dollar/Yen	110.24	0.43
10-Year	1.44	GBP/Dollar	1.38	-2.25
30-Year	2.01	Dollar/Cad	1.25	2.51

Source: Bloomberg/FactSet

What Caught Our Eye This Week

2020 was a breakout year for Special Purpose Acquisition Companies (SPACs). Last year, there were 237 SPAC deals which raised $79.8 billion in comparison to 194 traditional initial public offerings (IPOs) that raised $76 billion. Sometimes referred to as blank-check companies, founders of SPACs form a company, raise money by going public, and then identify an acquisition and complete the transaction by utilizing the proceeds raised from going public. The performance of SPACs in aggregate has been mixed. Harvard Law published a study that separated SPACs into high-quality (over $1 billion under management or led by former CEOs of Fortune 500 companies) and non-high quality. While high-quality SPACs outperformed their counterparts as one might expect, neither group performed well. Harvard Law highlights the dilution that occurs over multiple stages pre- and post-merger as a major factor in the underperformance. Studies by Goldman Sachs and Bloomberg found similar results. While investor enthusiasm at the front end of the SPAC IPO process may lead to solid performance prior to the announcement of a target company, it usually dies down as fundamentals regarding the acquisition are released.

Economy

The most anticipated report this week was the retail sales report, which was released on Tuesday. Retail sales dropped 1.3% in May, which was below consensus expectations. Over the past twelve months, retail sales are up 28.1%. There were also large upward revisions for the months of April and March. Consumers are now spending more on services evidenced by a 1.8% increase in restaurant and bar spending. The “control” category which excludes food service, autos, gas and building materials declined 0.7%. Overall, retail sales are 18% higher than where they were in February 2020. In other news this week the producer price index came in hotter than expected, rising 0.8% in May. Energy and food prices led the way rising 2.2% and 2.6%, respectively. The “core” PPI advanced 0.7% and is now up 4.8% year-over-year. Finally, on Wednesday, housing starts posted a 3.6% increase to 1.572 million units at an annual rate. Housing permits declined 3.0% and single family permits fell 1.6%.

Fixed Income/Credit Market

As expected, the FOMC left the key rate unchanged on Wednesday between a target range of 0% to 0.25%. However, the Fed surprised markets by signaling two rate hikes in 2023 ahead of announcing when they would scale back asset purchases, the timing of which has been debated for months as the precursor to a liftoff. The confusion has flattened the yield curve precipitously, particularly between the 5-year and 30-year yields (5/30 spread). The 5/30 spread began this week at 140 basis points (bps) but bear flattened on Wednesday following the Fed’s statement which moved the 5-year higher by 11.5 bps while the 30-year increased by just 2.1 bps to close at a spread of 131.3 bps. Moreover, on Thursday, traders began unwinding curve steepening trades in addition to those simply adding duration because they question the Fed’s commitment to its inflation goals. Those moves put downward pressure on the 30-year yield which has dropped 19.1 bps since Wednesday’s close. The 5/30 spread ended Friday at 114.1 bps.

Equities

After closing at a new all-time high on Monday, the S&P 500 posted a considerable decline for the week. One of the most widely discussed topics focused on the recent outperformance of growth stocks relative to value stocks. Month-to-date the Russell 1000 Growth has outperformed the Russell 1000 Value by 6.55% which has largely been attributed to thoughts that the economy is currently experiencing peak rates of growth and inflation. This narrative also partially explains the recent decline in longer-term bond yields which has severely impacted the performance of bank stocks. The KBW Bank Index which tracks 24 leading banks declined 7.83% on the week. Interestingly, according to Bloomberg, State Street’s SPDR S&P Regional Banking ETF notched a record inflow of $932 million on Wednesday which was likely due to a combination of the recent pullback and the Federal Reserve indicating that there will be two rate hikes in 2023. The only sector to post a gain for the week was information technology while materials lagged declining 6.31%.

Our View

Market participants were highly focused on this week’s FOMC meeting, which concluded with the release of its statement along with their summary of economic projections. The most eye-catching shift was in the hawkish direction with the median FOMC member now anticipating two 25 basis point fed funds rate hikes in 2023, whereas the previous projection showed no adjustments from the current level through 2023. Monetary policy makers upgraded their projections for GDP growth this year to 7.0% from 6.5% back in March due to vaccination progress and the economic reopening recovery. GDP growth projections further out were modestly adjusted higher in 2023, but remained stable at 1.8% in the longer run. In terms of inflation, the recent surge was reflected in the year-end projection of core PCE being increased 80 basis points since last quarter to 3.0%, but FOMC members still largely believe that the current inflationary forces will prove to be transient, to a degree, and reside slightly above 2.0% through 2023. With respect to the labor market, unemployment projections were mostly consistent with where they were back in March. The new Fed policy framework has shifted due to the pandemic and prioritizes maximum employment over inflation, however, the nature of the changes in projections seem to indicate the Fed is now beginning to place some weight on near term inflation concerns. The shift makes sense as downside risks have moderated, which now allows for the Fed to pull back policy on a potentially quicker timeframe. The Fed’s balance sheet has become even more in focus along with the potential to taper future asset purchases as Fed Chairman Powell stated that “you can think of this meeting as the talking about talking about meeting.” With the Fed indicating it may remove ultra-accommodative monetary policy sooner than previously anticipated, the yield curve flattened, domestic equities experienced some turbulence and the dollar strengthened. It is important to note, however, that the FOMC has been projecting the future path of the fed funds rate since 2012 and has consistently over-estimated their ability to raise rates. Therefore, the rate hike projections in 2023 should be taken with a grain of salt at this point and the discussions regarding the tapering of asset purchases should be the main focus.

COMING UP NEXT WEEK		Consensus	Prior
06/22 Existing Home Sales SAAR	(May)	5,700K	5,850K
06/23 Markit PMI Manufacturing SA (Prelim)	(Jun)	61.7	62.1
06/23 Markit PMI Services SA (Prelim)	(Jun)	69.8	70.4
06/24 Durable Orders ex-Trans SA M/M (Prelim)	(May)	0.80%	0.99%
06/24 Durable Orders SA M/M (Prelim)	(May)	2.8%	-1.3%
06/24 GDP SAAR Q/Q (Final)	(Q1)	6.4%	6.4%
06/25 Michigan Sentiment NSA (Final)	(Jun)	86.5	86.4

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