PEAPACK PRIVATE
Wealth Management

The Weekly
Economic & Market Recap

July 9, 2021

7/9/2021		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	34,870.16	83.81	0.24	1.73	13.93	33.75
S&P 500	4,369.55	17.21	0.40	1.33	16.33	38.82
NASDAQ	14,701.92	62.59	0.43	0.64	14.07	43.36
S&P MidCap 400	2,706.42	-3.15	-0.12	1.28	17.33	55.44

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.22	Euro/Dollar	1.19	0.18
5-Year	0.79	Dollar/Yen	110.14	-1.06
10-Year	1.36	GBP/Dollar	1.38	0.36
30-Year	1.99	Dollar/Cad	1.25	0.86

Source: Bloomberg/FactSet

What Caught Our Eye This Week

This week President Biden signed an executive order to create more competition within the rail and ocean shipping industries to address supply chain costs that are weighing down businesses. In the wake of the order, the rates to move freight continue to surge. The spot rate for a 40-foot container from Shanghai to Los Angeles has risen to $9,631, up 5% from the previous week and 229% higher than a year ago. This compares with an average price of less than $1,800 per container for the same route during the period from 2011 to March 2020. A composite index of the eight major trade routes now stands at $8,796, a 333% increase over the past year, and is expected to climb higher in the next few weeks. Though the surging rates are helpful to the container companies and shipping lines, they are making things difficult for manufacturers and retailers who are absorbing the high costs. If companies are unable to pass through their elevated costs to consumers, their profit margins may begin to suffer. In part, the spike in price has been caused by a scarcity of containers, particularly for eastbound transpacific shipments, which has resulted in substantial wait times and shipping delays.

Economy

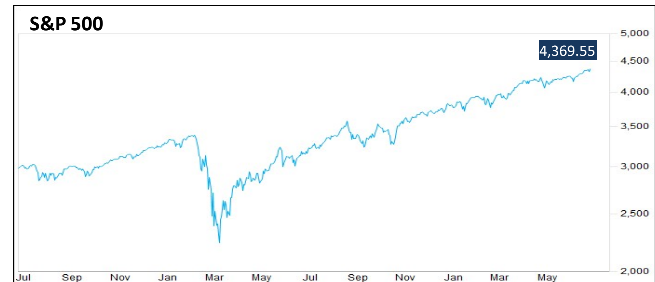
It was an uneventful week for economic data with only three reports being released. First, on Tuesday, the ISM nonmanufacturing survey missed the consensus forecast, dropping from 64 in May to 60.1 in June. All sub-indexes declined as new orders fell to 62.1, the employment index dropped to 49.3, and the business activity index lost 5.8 points to 60.4. The employment index has decreased by 9.5 points over the past two months. Overall, in this report 16 of 18 industries reported growth. On Wednesday, the JOLTS report (job openings and labor turnover survey) showed 9.209 million job openings on the last day of May, which is a new all-time high. The “quits” rate fell from 2.8% to 2.5% and over the past twelve months there is a net employment gain of 8.2 million. Layoffs have now declined for six straight months. In total there are now 9.3 million Americans who are unemployed but are seeking jobs. Finally, on Thursday, weekly jobless claims increased by 3,000 to 373,000 during the week ending July 3rd. This was a mild disappointment, and the four-week moving average remains at 395,000.

Fixed Income/Credit Market

Fixed income performance for Q2 2021 was positive for the majority of the sectors that we follow. The top performers were high-quality long-term bonds, emerging market debt (non-currency hedged), and preferred equity which returned 6.1%, 4.28%, and 3.67%, respectively. The laggards during Q2 were short-term Treasuries, international bonds, and mortgage-backed securities (MBS) with respective returns of -0.05%, 0.18%, and 0.2%. The return performances were not surprising given the new shape the U.S. Treasury yield curve took on during the second quarter which resulted in a material flattening. On the front-end, Treasury Bills through the 3-year Note increased anywhere from 1 basis point (bp) to 11.3 bps while the intermediate to long-end of the curve decreased 4.9 bps to 32.5 bps. The price action compressed the spread between the 2-year and 10-year tenors and the spread between the 5-year and 30-year tenors. The 2Y and 10Y spread dropped 36 bps to roughly 122 bps while the 5Y and 30Y spread decreased 27.6 bps to approximately 120 bps.

Equities

After all three major indices suffered their worst single day performance in three weeks on Thursday, U.S. domestic equities rebounded strongly on Friday to round out a volatile week. The S&P 500 rose 1.13% on Friday and closed at a new record high. The index has now finished with weekly gains in six out of the last seven weeks. The Dow and Nasdaq both rose 1.30% and 0.98%, respectively, on Friday as well. The main focus for the week, however, has been the collapse in bond yields. The spread of new Covid-19 variants has elevated concerns about the prospects for the ongoing economic recovery. This has led investors to trim their bets on companies poised to benefit from a fully reopened economy. Regardless, a “buy-the-dip” mentality ultimately drove Friday’s recovery. Growth names outperformed their value counterparts this week but still lag on a YTD basis. Real Estate was the top performing sector, up 2.73%, while Energy lagged down 3.41%.



Our View

U.S. Treasuries rallied significantly in recent weeks as the 10-year Treasury yield dropped below 1.3% on Wednesday for the first time since February and further pushed real yields into negative territory. The reflation trade which steepened the Treasury yield curve significantly over the first quarter of 2021 has lost momentum and is currently retreating. Demand for U.S. Treasuries is undoubtedly robust right now as the Fed is still purchasing $80 billion a month with no timeline at this point to reduce purchases in the near-term. Overseas buying is also placing pressure on domestic yields as the developed market yield differential favors U.S. Treasuries by roughly 1.2%. Also, concerns regarding Covid-19 variants and purchases associated with liability-matching pension funds could also be contributing to the risk-off trade. Some market participants believe that peak growth rates and liquidity levels were achieved in the second quarter of this year and that some degree of moderation should occur as time progresses. Moreover, the median Bloomberg contributor predicts that GDP growth will hit 9.2% annualized in the second quarter and moderate to 5.1% annualized by the fourth quarter of this year. Another sign that global growth rates may have peaked is coming out of China as the People’s Bank of China eased the reserve requirement for most banks by 0.50%, which is expected to unleash roughly $154 billion of long-term liquidity into the economy. China has experienced a tremendous surge in producer prices and companies are fearful that potential price increases will not be tolerated by consumers. The recent movements in the U.S. Treasury market indicate that market participants are less concerned with inflation at this point and more concerned with slowing economic growth as the massive amounts of fiscal and monetary stimulus are projected to fade over time. However, it is important to note that we do expect many additional quarters of above trend growth here in the U.S. and that the current U.S. Treasury rally is an overreaction if our economic growth expectations come to fruition.

COMING UP NEXT WEEK		Consensus	Prior
07/13 CPI ex-Food & Energy SA M/M	(Jun)	0.50%	0.70%
07/14 PPI SA M/M	(Jun)	0.50%	0.80%
07/15 Industrial Production SA M/M	(Jun)	0.65%	0.80%
07/16 Retail Sales ex-Auto SA M/M	(Jun)	0.50%	-0.70%
07/16 Retail Sales SA M/M	(Jun)	-0.55%	-1.3%
07/16 Michigan Sentiment NSA (Preliminary)	(Jul)	86.5	85.5

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