PEAPACK PRIVATE

Wealth Management

The Weekly

Economic & Market Recap

April 2, 2021

4/2/2021		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	33,153.21	80.33	0.24	1.84	8.32	54.82
S&P 500	4,019.87	45.33	1.14	1.44	7.02	59.08
NASDAQ	13,480.11	341.38	2.60	0.69	4.59	80.04
S&P MidCap 400	2,647.71	21.14	0.80	1.26	14.79	92.51

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.18	Euro/Dollar	1.18	-0.31
5-Year	0.95	Dollar/Yen	110.60	0.95
10-Year	1.70	GBP/Dollar	1.38	0.21
30-Year	2.35	Dollar/Cad	1.26	-0.07

Source: Bloomberg/FactSet

What Caught Our Eye This Week

The significant declines in the stocks of Discovery Inc. and ViacomCBS Inc. in recent weeks were primarily driven by forced sales from an overextended shareholder. They also suggest, however, that investors are re-evaluating the appropriate market capitalization for the landscape of companies which provide streaming media content and distribution. As companies build out and launch their respective platforms, they are creating additional competition for consumers' attention and subscription dollars. Consumers have shown they are willing to include multiple platforms in their monthly budget, but they may not need all the different services to which they have access. The aggregate monthly cost of basic service from several streaming providers is now much closer to the amount viewers spent on traditional cable prior to "cutting the cord". The large amount of content is overwhelming, and industry observers believe it pushes people to watch the same shows repeatedly. For companies which need high viewership to make a return on their investment and justify the cost of the production, streaming may remain an expensive (albeit necessary) business. As the competition among marginal entrants to streaming increases, whether new players can gain meaningful market share is less clear. Consolidation could be on the horizon.

Economy

The economic headliner this week was the nonfarm payroll report, which was released on Friday. This report showed payrolls increasing by 916,000 in March and the unemployment rate dropping from 6.2% to 6.0%. There also were positive revisions for January and February totaling 156,000. Nonfarm payrolls are still down 8.4 million from the pre-pandemic levels of February 2020. The broad U-6 measure of unemployment declined from 11.1% to 10.7%, and the labor force participation rate was little changed at 61.5%. Examining the different employment sectors, leisure and hospitality added 280,000 jobs, construction gained 110,000 jobs, and manufacturing secured 53,000 jobs. In other news this week the ISM manufacturing survey increased from 60.8 to 64.7 in March. This figure easily beat expectations and is the highest level reported since the 1980's. The new orders index rose to 68.0 and 17 of the 18 industries reported growth. Finally, on Tuesday, the Conference Board consumer confidence index surged 19.3 points to 109.7 in March. This is one of the largest monthly increases on record and the labor market differential improved noticeably, rising from -0.8 to +7.8.

Fixed Income/Credit Market

U.S. Treasury Note and Bond yields increased anywhere from 4 basis points (bps) to 87.2 bps during the first quarter. The rapid rise in yields (particularly the long-end of the curve) caused most of the high-quality fixed income sectors that we follow to turn in negative performances. However, higher Treasury yields were indicative of an economic recovery which aided the performance of the riskier sectors. The top performers during the quarter were 0-5 year high yield bonds, preferred equities, and senior loans which returned 1.72%, 0.51%, and 0.17%, respectively. Conversely, high-quality long-term bonds, international Treasuries, and emerging market debt (non-currency hedged) provided investors with respective returns of -10.06%, -6.56%, and -5.47%. Switching gears, the spread between the 2-year and 10-year tenors (2/10 spread) increased 78.7 bps and closed the quarter at approximately 158 bps, the highest it has been over a 5-year period. At 158 bps, the 2/10 spread is now roughly 98 bps above its five-year average.

Equities

Domestic stocks finished the holiday shortened week with gains as an optimistic outlook continued to drive momentum. For the week, the S&P 500, Dow, and Nasdaq posted gains of 1.14%, 0.24%, and 2.60%, respectively. Growth outperformed value this week by 2.08% as well. Most notably, the S&P 500 crossed over 4000 for the first time in history on Thursday. The move between 3000 and 4000 is the shortest 1000-point move on record, lasting only 434 days. The prior 1000-point move from 2000 to 3000, for comparison, took 1227 days. The rise in equities is being driven by the anticipation that the strong economic rebound, which began roughly a year ago, will continue. The positive sentiment is being further amplified by the spending programs from the Biden Administration, increased efficiency in the vaccination effort, and expectations for strong earnings from Q1, which ended on Wednesday. However, investors are noting the continuing rise in bond yields and fresh lockdowns in Europe as areas of caution. Communication services surged 3.39% leading all sectors for the week.

Our View

In order to alleviate a portion of the damages and hardships caused by the pandemic, the U.S. Government has authorized over $5 trillion in fiscal stimulus thus far, which easily surpasses the approximate $830 billion Recovery Act that was implemented after the Great Recession of 2007-09. Highly accommodative fiscal policy at the current juncture coupled with expansionary financial conditions has the potential to boost GDP growth in 2021 to the fastest pace in nearly 4 decades. Moreover, consumers have stockpiled close to $2 trillion in savings since the start of the pandemic and have experienced the wealth effects of rising equity and real estate markets. Nonetheless, with the momentum of additional fiscal spending in full swing, President Biden unveiled a four-part, eight-year $2.25 trillion infrastructure proposal on Wednesday. The proposal is a moving target at this point and will be reshaped as it moves its way through Congress over the coming months. Unlike the previous stimulus packages, this one is projected to be partially paid for by an increase in the corporate tax rate from 21% to 28% and establishing a 21% minimum tax on global corporate earnings. Since the plan is longer term in nature and does not entail any immediate direct payments to consumers, its near-term inflationary impact could be minimal. The key to the success of the plan is how it impacts productivity and business investment moving forward. Money is projected to flow towards roads and bridges, green investments, research and development, manufacturing and other initiatives. If the proposal is designed properly and efficiently allocated, it could lead to enhanced innovation and economic growth. The previous expansion experienced modest economic growth but lasted a record 10.5 years due to a multitude of factors including minimal financial imbalances and low inflation. The Fed along with government officials have done an admirable job navigating through the pandemic and have taken the necessary steps to restore economic stability. However, inflationary pressures are building from many different angles and if they are not contained, they have the potential to limit the longevity of the current expansion.

COMING UP NEXT WEEK		Consensus	Prior
04/05 Durable Orders SA M/M (Final)	(Feb)	-0.75%	-1.1%
04/05 Factory Orders SA M/M	(Feb)	-0.80%	2.6%
04/05 ISM Non-Manufacturing SA	(Mar)	59.0	55.3
04/09 PPI ex-Food & Energy SA M/M	(Mar)	0.30%	0.20%
04/09 PPI SA M/M	(Mar)	0.40%	0.50%

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