Peapack Private
Wealth Management

The Weekly
Economic & Market Recap

September 18, 2020

9/18/2020		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	27,657.42	-8.22	-0.03	2.28	-3.09	2.02
S&P 500	3,319.47	-21.50	-0.64	1.81	2.75	10.44
NASDAQ	10,793.28	-60.27	-0.56	0.80	20.29	31.85
S&P MidCap 400	1,865.86	10.99	0.59	1.84	-9.56	-4.78

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.11	Euro/Dollar	1.19	0.25
5-Year	0.27	Dollar/Yen	104.32	-1.77
10-Year	0.70	GBP/Dollar	1.30	1.39
30-Year	1.45	Dollar/Cad	1.32	-0.06

Source: Bloomberg/FactSet

What Caught Our Eye This Week

This has been a record year for Specialty Purpose Acquisition Companies (SPACs) with nearly $36.2 billion in gross proceeds, significantly exceeding the $13.6 billion in 2019 and $10.8 billion in 2018. A SPAC, frequently referred to as a blank check company since it has no operations, is a company formed to raise money through an initial public offering (IPO) with the sole purpose of using the proceeds to acquire an existing company. The business it acquires is decided after the IPO. For the business selling to the SPAC, it is a faster and more cost-effective route to an initial public offering. When becoming a shareholder of a SPAC, however, an investor will most likely know the area or sector, but not which specific business the company will acquire. Shareholders will vote on the business to be acquired, either approving the deal or turning in their shares for cash. If approved, the SPAC and the business will combine into a new publicly traded company. SPACs have been around since the 80s and this year has seen a revival with 80% of the money raised in IPOs through April coming through this channel. One of the most notable businesses to become a publicly traded company through a SPAC is DraftKings which has helped add to the popularity of blank check deals.

Economy

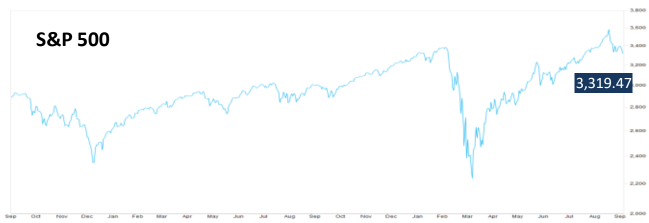
The economic headliner this week was the retail sales report, which was released on Wednesday. Retail sales increased by 0.6% in August, which was slightly below consensus expectations. This is the fourth straight month of increases, and overall retail sales are now 2.5% higher than the February levels. Non-store retail sales were flat once again, but sales at restaurants and bars advanced by 4.7%. The "control' category, which excludes food service, autos, gas and building materials, increased by 0.1%. Overall, nine out of 13 major retail categories reported gains, and over the past 12 months retail sales have grown by 2.6%. In other news this week industrial production figures registered a 0.4% increase in August while manufacturing output gained 1.0%. Capacity utilization increased to 71.4%, but industrial pro-duction levels are still depressed relative to norms before the spread of COVID-19. Housing starts were reported on Thursday and posted a decline of 5.1% in August to 1.416 million units at an annual rate. The best news was single family permits surged by 6.0%, which is the strongest pace since 2007. Finally, we were pleased to see the NAHB survey (national association of homebuilders) increase from 78 to 83 in September, an all-time high.

Fixed Income/Credit Market

U.S. Treasury (UST) rates traded within a narrow range week-over-week and despite short-term yields decreasing while back-end yields increased, the tight ranges at each tenor kept the shape of the UST curve effectively unchanged. The benchmark 2-year and 10-year Notes increased 1.1 basis point (bp) and 3 bps, respectively, which slightly increased the 2-year and 10-year spread to 55.6 bps. Since the beginning of September, the 10-year UST Note has fluctuated only 8.3 bps between 0.719% and 0.636% while averaging 0.682%. Strangely enough, the peak and trough occurred over a 24-hour period on September 3rd and September 4th. The tight trading ranges across the UST curve coupled with the expectation that the FOMC will keep interest rates "lower for longer" has put tremendous downward pressure on interest rate volatility. The MOVE Index (Merrill Lynch Option Volatility Estimate), which is a yield curve weighted index of volatility on 1-month Treasury options, hit a five-year low on Thursday at 38.5, roughly six-months after hitting a five-year high of 163.7.

Equities

The S&P 500 posted a third consecutive week of declines marking its first since October of 2019, according to FactSet. Stocks started the week off strong posting solid gains on both Monday and Tuesday. Most of the news earlier in the week centered around positive headlines on the coronavirus vaccine front after the CEO of Pfizer said that a vaccine could be rolled out before the end of 2020. Furthermore, mergers and acquisitions activity was a big focus particularly the announcement that Oracle will be TikTok's "trusted technology partner" in the U.S. The upward trend reversed during the balance of the week with large-cap growth and momentum stocks weighing heavily on the indexes. The Federal Reserve's announcement on Wednesday is largely cited as a potential reason for the pullback due to a lack of details in their updated guidance, no changes to the quantitative easing program, and fears that we have reached a peak in monetary stimulus. Another headwind for equities continues to be the stalemate between Democrats and Republicans on a fifth coronavirus relief bill. Consumer discretionary was the worst performer this week posting a 2.33% decline, while the energy sector outperformed gaining 2.90%.



Our View

At this week's FOMC meeting, the Fed further solidified its flexible average inflation target by explicitly adopting inflation-linked guidance in its policy statement. More specifically, the FOMC expects to keep rates unchanged "until labor market conditions have reached levels consistent with the Committee's assessment of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time." In the past the FOMC had targeted a symmetric inflation objective around 2%, but after a decade of consistently missing the target to the downside, the goal now is clearly to exceed it to the upside for a period of time. With that being said, the FOMC now projects the Fed Funds rate to reside between 0% and 0.25% through at least the end of 2023 because of the illusive nature of inflation, which has numerous contributing factors. First, even though the money supply has expanded dramatically since the financial crisis, the velocity of money (frequency of money changing hands) has collapsed. Second, the uncertainty created by the pandemic has caused consumers to pull back on spending and in turn increased the savings rate. Moreover, the average savings rate over the past 30 years in the U.S. has been approximately 6.7%, but the most recent figure as of July was a staggering 17.8%. Third, there is a tremendous amount of slack in the labor market that is limiting the average workers' bargaining position for wage increases. As of August, the unemployment rate in the U.S. stood at 8.4%, which is well above the FOMC's longer run projection of 4.1%. Lastly, there are the secular deflationary forces of aging demographics and advances in technology weighing on prices. On a different note, the Fed has proven in the past that it clearly has the tools to combat inflation, but a disinflationary environment has been a more difficult problem to solve. The Fed is committed to boosting inflation and inflation expectations, but the road forward will be unpredictable and filled with surprises.

COMING UP NEXT WEEK		Consensus	Prior
09/22 Existing Home Sales SAAR	(Aug)	5,925K	5,860K
09/23 Markit PMI Manufacturing SA (Prelim)	(Sep)	52.5	53.1
09/23 Markit PMI Services SA (Prelim)	(Sep)	54.5	55.0
09/24 Initial Claims SA	(09/19)	850.0K	860.0K
09/24 New Home Sales SAAR	(Aug)	875.0K	901.0K
09/25 Durable Orders SA M/M (Prelim)	(Aug)	1.3%	11.4%

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