PEAPACK PRIVATE
Wealth Management

The Weekly
Economic & Market Recap

July 30, 2021

7/30/2021		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	34,935.47	-126.08	-0.36	1.72	14.14	32.77
S&P 500	4,395.26	-16.53	-0.37	1.32	17.02	35.40
NASDAQ	14,672.68	-164.31	-1.11	0.63	13.85	38.60
S&P MidCap 400	2,703.67	30.93	1.16	1.30	17.21	44.10

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.18	Euro/Dollar	1.19	0.82
5-Year	0.70	Dollar/Yen	109.75	-0.74
10-Year	1.23	GBP/Dollar	1.39	1.11
30-Year	1.89	Dollar/Cad	1.25	-0.83

Source: Bloomberg/FactSet

What Caught Our Eye This Week

The U.S. Securities and Exchange Commission (SEC) has stopped processing registrations for initial public offerings (IPOs) by Chinese companies while it develops new discloser requirements regarding the risk to investors due to the regulatory crackdown by Beijing. The SEC has also said that it would like Chinese companies listed on U.S. stock exchanges to disclose the risks of the Chinese government interfering in their businesses. The Chinese have very recently placed restrictions on ride sharing, technology and private educations companies. The impact of the crackdown by Chinese regulators has had a deleterious effect on investor sentiment toward Chinese equities and contributed to a greater than 5% sell-off in Shanghai A shares in July. The SEC's reaction will, at least temporarily, cutoff access to Chinese companies seeking new capital in the U.S. According to Refinitiv, Chinese listings in the U.S. have already reached a record $12.8 billion this year. The action by the SEC reflects the overall deterioration of the relationship between Beijing and Washington, and the willingness of the U.S. to restrict access to our capital markets. Furthermore, President Biden recently announced an expansion of the ban on Americans from investing in Chinese technology and defense companies with potential military ties.

Economy

The most anticipated report this week was the first look at real second quarter GDP. Growth was strong at 6.5%, but expectations were set at 8.4%. This current level of GDP is slightly above the peak that was achieved in Q4 2019. Real consumer spending surged 11.8% and business investment spending increased 8.0%. The disappointments resided in foreign trade, inventory accumulation and residential investment. On Tuesday orders for durable goods also came in light, rising 0.8% in June. Excluding the volatile transportation sector, core capital goods orders rose 0.5% and core capital goods shipments increased 0.6%. Both of these metrics have accelerated noticeably in the past three months. The Conference Board's consumer confidence index was released on Tuesday and posted an increase from 128.9 in June to 129.1 in July. Finally, on Friday, real consumer spending increased 0.5% in June, total income rose 0.1% and the personal savings rate declined to 9.4%.

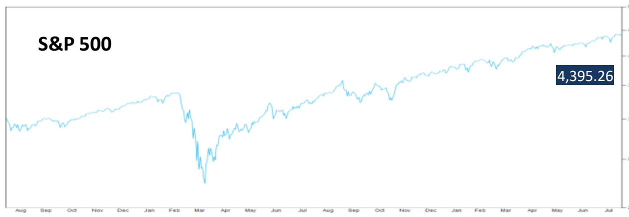
Fixed Income/Credit Market

With a bevy of underlying crosscurrents in the global financial markets, U.S. Treasury yields remained consistently directionless during the past week. 1.25% on the 10-year Treasury has mimicked the centerline of a back-and-forth game of tug-of-war. The 10Y yield traded in a narrow range this week between roughly 1.23% to 1.29% with the tenor closing Friday down roughly 5 basis points (bps) on the week at 1.23%. While the 10Y Treasury yield is currently below its pre-pandemic historic low of 1.35%, it remains an attractive alternative vs our global peers. However, with a perceivably higher interest rate environment looming over the next several years, investors should continue to add duration cautiously.

Global 10-Year Yields		
Country	Current Yield	Current Basis point spread vs U.S.
U.S.	1.23	
U.K.	0.563	-66.7
France	-0.108	-133.8
Germany	-0.463	-169.3
Italy	0.619	-61.1
Spain	0.265	-96.5
Switzerland	-0.427	-165.7
Japan	0.014	-121.6

Equities

On Monday, domestic equities continued their positive momentum from the prior week which resulted in all three major stock indexes closing at new all-time highs. The risk-on sentiment faded throughout the week due to an increased focus on the spread of the Delta coronavirus variant and a selloff in Chinese stocks after Beijing's regulatory crackdown. Although stocks generally declined on the week, second quarter earnings have been robust. Corporate earnings have beaten analyst estimates at a very strong rate and demand commentary has been upbeat. Furthermore, companies have been issuing favorable guidance for the third quarter. According to FactSet, 48 companies in the S&P 500 have issued EPS guidance for Q3 2021. Of these 48 companies, 19 have issued negative EPS guidance and 29 have issued positive EPS guidance. The percentage of companies issuing positive EPS guidance is 60% (29 out of 48), which is well above the 5-year average of 37%. Although the large cap indexes posted declines on the week, mid and small cap stocks managed to post gains. The S&P Mid Cap 400 and Russell 2000 increased 1.16% and 0.75%, respectively.



Our View

The Federal Open Market Committee (FOMC) concluded its two-day meeting this past Wednesday and left its benchmark interest rate and asset purchases unchanged. The major modification in the FOMC's statement was the acknowledgement that progress is being made towards its goals of maximum employment and price stability, which opens up the door to the potential tapering of asset purchases in the near future. The Fed has been buying at least $80 billion of U.S. Treasuries and $40 billion of agency MBS per month which has ballooned its balance sheet to over $8 trillion (roughly 8 times the size prior to the financial crisis). With robust economic growth in the U.S., coupled with accommodative financial conditions, some market participants question the need of the current pace of quantitative easing. While the most recent FOMC statement opens the door to a future tapering announcement, there is currently no clear timeline as to when it will occur. At this point the announcement could come as soon as the Jackson Hole Economic Policy Symposium, where Chairman Powell is going to be a featured speaker in late August or the next FOMC meeting in September. Regardless of when the announcement is made, we believe that the pace of tapering will be gradual and not start until the beginning of 2022 to minimize the potential for market disruptions given the current uncertainties surrounding inflation and the virus. There is no question that Fed's asset purchases to combat the horrible impacts of the pandemic have done a tremendous job at restoring market functionality, but at this point the expansion of its balance sheet is causing distortions. Moreover, the Fed has been driving down the cost of home borrowing through its asset purchases and spur-ring the demand for housing. The CoreLogic Case-Shiller 20-City U.S. Home Price Index was up close to 17% year-over-year in May, which is well above its 20-year average of approximately 4.5%. It is important to note that the previously mentioned annual appreciation in the housing market is also being driven by supply constraints and pandemic relocation, but it is apparent that the housing market no longer needs Fed support.

COMING UP NEXT WEEK		Consensus	Prior
08/02 ISM Manufacturing SA	(Jul)	60.8	60.6
08/03 Durable Orders SA M/M (Final)	(Jun)	-	0.80%
08/03 Factory Orders SA M/M	(Jun)	1.1%	1.7%
08/04 ISM Non-Manufacturing SA	(Jul)	61.0	60.1
08/06 Nonfarm Payrolls SA	(Jul)	750.0K	850.0K
08/06 Unemployment Rate	(Jul)	5.8%	5.9%