October 29, 2021

| 10/29/2021 | | Wk | Wk | | YTD | 12 Mos |
|---|---|---|---|---|---|---|
| | | Net | % | Div | % | % |
| **STOCKS** | Close | Change | Change | Yield | Change | Change |
| DJIA | 35,819.56 | 142.54 | 0.40 | 1.72 | 17.03 | 34.36 |
| S&P 500 | 4,605.38 | 60.48 | 1.33 | 1.29 | 22.61 | 39.13 |
| NASDAQ | 15,498.39 | 408.19 | 2.70 | 0.62 | 20.25 | 38.56 |
| S&P MidCap 400 | 2,794.11 | -2.73 | -0.10 | 1.33 | 21.13 | 45.87 |

| **TREASURIES** | Yield | **FOREX** | Price | Wk %Change |
|---|---|---|---|---|
| 2-Year | 0.50 | Euro/Dollar | 1.16 | -0.64 |
| 5-Year | 1.18 | Dollar/Yen | 114.03 | 0.38 |
| 10-Year | 1.56 | GBP/Dollar | 1.37 | -0.47 |
| 30-Year | 1.95 | Dollar/Cad | 1.24 | 0.34 |

Source: Bloomberg/FactSet

**What Caught Our Eye This Week**

The internet was revolutionary, then it went mobile. The next step is the metaverse. The metaverse is a term that defines virtual reality spaces where we will be able to work, socialize, shop, and connect with each other in a simulated way. We will do this by entering digital spaces where we and those around us are avatars, digital representations of individuals. The graphics will eventually become so lifelike, that the digital images will be nearly indistinguishable from the real thing. You and your friends from anywhere on the planet will be able to attend a concert of your favorite recording artist using a virtual reality headset. From your living room, you and your family will be able to visit the Pantheon in Rome or the Louvre in Paris and explore the sites with a personal (digital) guide who can answer any question that you may pose. You will be able to meet in a conference room digitally with work colleagues around the globe and have discussions "face to face." You will also be able to digitally go shopping in any store and even try on clothing virtually. Videogaming companies are at the forefront of this megatrend, but the largest technology companies are now looking to develop the software and hardware tools that will enable this next technological megaphase to come to fruition.

**Economy**

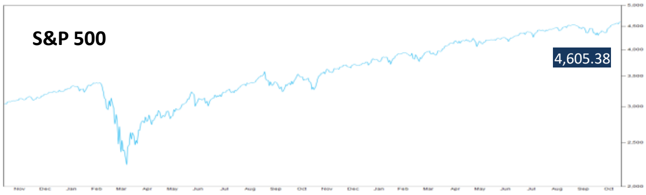
The most anticipated report this week was the first look at real third quarter GDP. The U.S. economy grew at an annual rate of 2.0% in the third quarter. These figures missed expectations as government stimulus has been winding down and spending on autos declined 53.9% at an annual rate. Spending on services grew at an annual rate of 7.9% and inventories declined much more slowly than they did in Q2, resulting in being additive to real GDP. Overall, consumer spending rose at an annual rate of 1.6% in the third quarter. In other news this week, new orders for durable goods declined 0.4% in September, but more importantly "core" orders advanced 0.8% and "core" shipments gained 1.4% (well above consensus). Demand for durable goods has now increased in 15 of the past 17 months. On Tuesday, new home sales posted a huge gain of 14.0% in September, easily surpassing expectations, and the median price of a new home sold has surged 18.7% over the past 12 months. Finally, personal income dropped 1.0% in September and real consumer spending advanced 0.3%.

**Fixed Income/Credit Market**

The shape of the U.S. Treasury (UST) curve changed drastically during the month of October as the fixed income markets are gearing up for the potential impact of quantitative tightening in the form of tapering and subsequent Fed funds rate increases. Interest rates on 2-year notes through 7-year notes increased in October anywhere from 17.6 basis points (bps) to 24.8 bps, indicating that fixed income investors might expect the FOMC to pull forward Fed funds rate hikes. With that said, the UST yield curve has flattened tremendously in October given the notion that interest rate increases will potentially stymie long-term growth and inflation. During the month, the 2-year and 10-year yield spread decreased 14.4 bps to roughly 107 bps while the spread between the 5-year and 30-year yields dropped 32.9 bps to 75.1 bps. The 2-year note is often viewed as the rate of Fed funds one-year forward, and currently at 0.5% that would mean roughly two increases of 25 bps in the Fed funds rate. Additionally, the Fed Funds Future Implied key rate one-year forward is at 0.475% which is also indicative of approximately two 25 bp hikes.

**Equities**

It was a strong week for domestic equities, and the S&P 500, Dow and Nasdaq indexes closed at new all-time highs on Friday. Stocks have now posted four consecutive weeks of gains. The path of least resistance has been to the upside over the recent past as the backdrop of robust demand, highlighted in third quarter earnings results, is seemingly offsetting concerns about supply chain and input price pressures. On Thursday, Democrats unveiled a framework for an eventual $1.75 trillion "Build Back Better" social spending bill. The bill includes items such as incorporating a 15% global minimum corporate tax and a 1% tax on stock buybacks, but it is still unclear whether the bill will ultimately get approved. In other news, Facebook changed its company name to Meta which reflects the company's growing ambitions to create a virtual world for its users. Growth stocks significantly outperformed value stocks this week with the Russell 1000 Growth gaining 4.44% while the Russell 1000 Value only increased 1.07%. All sectors finished the week in the green, but the energy and consumer staples sectors lagged considerably posting returns of 0.40% and 0.84%, respectively.




**Our View**

In January of 2020, the labor force participation rate in the U.S. was 63.4%, but it rapidly dropped to 60.2% three months later as the economy went into lockdown to combat the horrific health implications of COVID-19. With the rapid development of medical solutions coupled with lifestyle changes, the economy has largely reopened, however, the labor force participation rate still resides 1.8 percentage points below its pre-pandemic figure and there are still approximately 5 million fewer people employed. It was once believed that when federal unemployment benefits expired and schools reopened, there would be a surge in people reentering the labor force, but that has not necessarily come to fruition. There is no simple single answer as to what is holding people back from the labor market, but it may be explained from a handful of different angles. First, many people pulled forward retirement due to COVID-19 as a trendline suggest 1.5 million people retired earlier than anticipated. People close to retirement age who have health concerns may have received extra motivation to retire early thanks to the rapid increase in asset values from the depths of the pandemic, thanks to extraordinarily accommodative monetary and fiscal policies. Childcare is also an issue as availability constraints are a reality in many places and costs can be somewhat prohibitive. Therefore, some parents with young children have had a difficult time returning to work. A third reason could be due to the large additional aggregate savings that households in the U.S. have accumulated during the pandemic that gives them the flexibility to stay out of the labor force longer and be a bit more selective when deciding to go back to work. There are reasons for optimism that the supply of workers will increase in the months ahead as employers raise wages to entice workers off the sidelines and COVID-19 case counts continue in a downward direction. But, the Fed's estimate of full employment may need to be reevaluated if wages continue its current upward trend. If the supply of labor does not expand meaningfully over the coming months, inflation may prove to be less transitory than the Fed's current expectations.

| COMING UP NEXT WEEK | | Consensus | Prior |
|---|---|---|---|
| 11/01 ISM Manufacturing SA | (Oct) | 60.1 | 61.1 |
| 11/03 ISM Non-Manufacturing SA | (Oct) | 61.8 | 61.9 |
| 11/03 ADP Employment Survey SA | (Oct) | 475.0K | 568.0K |
| 11/04 Productivity SAAR Q/Q (Preliminary) | (Q3) | -1.1% | 2.1% |
| 11/05 Private Nonfarm Payrolls | (Oct) | 380.0K | 317.0K |

For more information about our solutions: http://peapackprivate.com