Peapack Private
Wealth Management

The Weekly
Economic & Market Recap

June 25, 2021

6/25/2021		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	34,433.84	1143.76	3.44	1.75	12.51	33.75
S&P 500	4,280.70	114.25	2.74	1.36	13.97	38.82
NASDAQ	14,360.39	330.01	2.35	0.66	11.42	43.36
S&P MidCap 400	2,726.50	114.56	4.39	1.26	18.20	55.44

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.27	Euro/Dollar	1.20	0.80
5-Year	0.93	Dollar/Yen	110.77	0.49
10-Year	1.53	GBP/Dollar	1.39	0.78
30-Year	2.15	Dollar/Cad	1.23	-1.36

Source: Bloomberg/FactSet

What Caught Our Eye This Week

While a recent paper published by the Federal Reserve Board reports that approximately 130,000 firms went out of business as a result of the Covid-19 pandemic (one-quarter to one-third higher than normal historical levels), there has been surprising growth in the number of newly formed businesses. Greater availability of funding (both from banks and other sources), reduced barriers to entry, made possible by the internet and the abundance of e-commerce platforms, and necessity have all led Americans to establish fledgling ventures at an unprecedented pace. The number of entrepreneurs starting a business hit a record high in 2020, according to a study by an economist at the University of Maryland. In addition, the number of applications for employer identification numbers more than doubled. Non-store retailers and technology services were among the categories that led the rise in applications, but there have also been new openings of laundromats, trucking companies, and surprisingly, restaurants. Similar to home sales, the trend in business formations has led employment growth with a lead time of approximately 11 months. These developments could portend well for additional job creation and a continuation of the economic recovery.

Economy

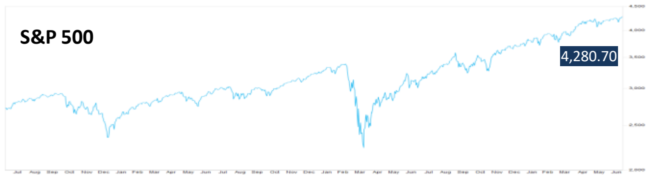
On Tuesday, existing home sales for May declined for a fourth consecutive month but came in above expectations at 5.8 million beating consensus estimates of 5.7 million. Although home sales have generally been decelerating since January, the combination of strong demand and limited supply has pushed median prices up 23.6% in the past year, the fastest rate on record going back to 2000. On Thursday, the third report on Q1 real GDP met expectations of a 6.4% annualized surge in growth. There were small positive revisions to business fixed investment, inventories, and personal consumption which were offset by downward revisions to net exports. In other news, the May durable goods orders report came in below expectations but showed a rebound versus the prior month as commercial aircrafts and autos activity rose 2.1%. Furthermore, shipments of core non-defense capital goods ex-aircraft (a key input for business investment in the calculation of GDP growth), rose 0.9% in May which represent a strong 9.7% annualized growth rate.

Fixed Income/Credit Market

U.S. Treasuries (UST) bear steepened week-over-week, meaning that longer-dated yields increased at a faster pace than short-term yields. The benchmark 10-year Treasury Note closed Friday up 8.3 basis points (bps) from the prior week while the 30-year Bond increased 13.6 bps week-over-week. The march higher in yields increased the spread between the 2-year and 10-year (2/10 spread) tenors 7.1 bps to roughly 126 bps. The steepening was even more pronounced between the 5-year and 30-year (5/30 spread) tenors which saw a spread increase of 8.8 bps to approximately 123 bps. The 2/10 spread is now trading 4.3 bps below its year-to-date (YTD) average of 129.9 bps. However, after falling precipitously following last week's FOMC meeting, the 5/30 spread is trading 2.5 standard deviations below its YTD average of 145 bps. Currently, Bloomberg's forward curve matrix is forecasting respective increases of 30 bps and 12 bps for the 10-year Note and 30-year Bond over a one-year horizon. But with the future path of inflation uncertain and President Biden's infrastructure deal hanging in the balance, the direction of UST rates remains unknown.

Equities

U.S. domestic equities finished higher on Friday to close out their best 5-day stretch since March. The Dow rose 3.44% on the week, while the S&P 500 jumped 2.74% closing at a record high of 4,281. Nasdaq also closed higher on the week, up 2.35%. The bounce back from last week's losses can be attributed to the prospect of additional fiscal stimulus, driven primarily by the $1.2 trillion infrastructure plan. With a focus on improving electrical grids, transit systems, roads, and bridges, value names – which tend to be more cyclical in nature – outperformed their growth counterparts by 0.72% for the week. The financials and energy sectors were strong outperformers rising 5.28% and 6.66%, respectively. Industrials posted a solid week as well, rising 3.04%. Uncertainty regarding inflation's recent uptick is still a concern and has raised questions about the future path of interest rates. Nevertheless, investors did get some reassurance after Fed Chairman Powell alleviated fears about inflation and committed to the Fed's current easy monetary policy.



Our View

It appears that a bipartisan agreement on an infrastructure deal that would invest billions of dollars on new roads and bridges across the country is progressing. A group of centrist Senators from both parties has agreed with President Biden on the general parameters of a $1.2 trillion spending plan that will span eight years. However, the deal is far from complete and will face significant political hurdles. President Biden wants the physical infrastructure package to be sent to the White House along with a separate broad package of Democratic spending priorities to address the social safety net. The administration has called the second bill a "human infrastructure" package that includes spending on child and elder care, education, expansion of Medicare, and climate change. Initially, the two spending packages were together, but many Democratic priorities such as climate change and healthcare were nonstarters with Republicans. Biden hopes to get the human infrastructure spending bill passed through Congress across strict party lines. The bill includes over $3 trillion in spending and has an increase in corporate taxes and taxes on individuals making over $400,000. Republicans are staunchly opposed to any tax hikes, especially for programs they fundamentally disagree with. Even paying for the infrastructure package, that emphasizes upgrading the country's physical infrastructure, is murky. Republicans would like to re-purpose the $700 billion in unspent Covid-19 money primarily earmarked for the States. The Democrats, on the other hand, prefer using a laundry list of pay-fors which are reductions or eliminations of other government programs. Both Republicans and Democrats generally agree that we need to invest in our roads, bridges, electric grid, and broadband capabilities to remain globally competitive. Earlier this year, the non-partisan American Society of Civil Engineers reported we need to spend an additional $2.59 trillion over the next ten years to maintain our crumbling infrastructure. In their view, we need to act urgently or risk significant economic losses and deterioration of our standard of living. Unfortunately, accomplishing anything in Washington in the current politically charged environment is challenging.

COMING UP NEXT WEEK		Consensus	Prior
06/30 Chicago PMI SA	(Jun)	70.0	75.2
06/30 Pending Home Sales M/M	(May)	-1.0%	-4.4%
07/01 ISM Manufacturing SA	(Jun)	61.1	61.2
07/02 Nonfarm Payrolls SA	(Jun)	650.0K	559.0K
07/02 Durable Orders SA M/M (Final)	(May)	2.3%	2.3%
07/02 Factory Orders SA M/M	(May)	1.7%	-0.6%

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