Peapack Private
Wealth Management

The Weekly
Economic & Market Recap

August 6, 2021

8/6/2021		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	35,208.51	273.04	0.78	1.72	15.04	28.56
S&P 500	4,436.52	41.26	0.94	1.32	18.12	32.47
NASDAQ	14,835.76	163.09	1.11	0.64	15.11	33.56
S&P MidCap 400	2,717.36	13.69	0.51	1.27	17.81	41.89

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.21	Euro/Dollar	1.18	-0.83
5-Year	0.77	Dollar/Yen	110.33	0.52
10-Year	1.30	GBP/Dollar	1.39	-0.27
30-Year	1.95	Dollar/Cad	1.26	0.74

Source: Bloomberg/FactSet

What Caught Our Eye This Week

Investors are optimistic that a strong rebound in consumer spending is underway and will result in a post-pandemic boom. They are encouraged by earnings estimates from Wall Street analysts, which call for a straight-line recovery in demand. In recent weeks, these expectations have been challenged by concerns related to the Delta variant of Covid-19. High-frequency data (e.g., consumers' inclination to take vacations or go to amusement parks) and other tools used to gauge the recovery in real time suggest predictions for a prolonged release of pent-up consumer demand might be too strong. Credit-card spending, transport usage, and restaurant reservations in the U.S. and U.K. have all pulled back from their peak. Movie attendance has stalled at levels well below historical norms, and services consumption is still very weak. For Wall Street's forecasts to be achieved, savings rates (which hit 20% in 2020) will likely need to drop below recent historical averages and at a faster pace than usual. Consumers may view their increased savings as gains in wealth rather than a windfall the longer the pandemic persists. The recovery may be choppier than generally believed if the Delta variant becomes more problematic.

Economy

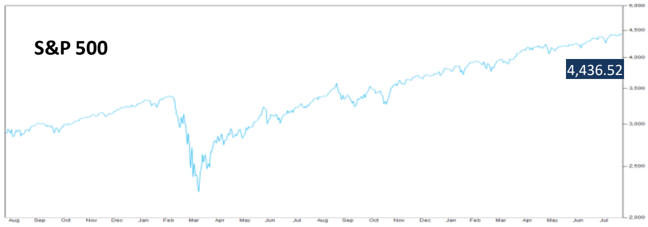
The economic headliner this week was the nonfarm payroll report, which was released on Friday. This report showed payrolls increasing by 943,000 in July and the unemployment rate falling to 5.4%. There were also positive revisions for May and June totaling 119,000. Nonfarm payrolls are still down 5.7 million from the pre-pandemic levels of February 2020. The broad U-6 measure of unemployment dropped from 9.8% to 9.2% and the labor force participation rate climbed to 61.7%. The total number of unemployed persons declined by 782,000 to 8.7 million. Examining the different employment sectors, leisure and hospitality added 380,000 jobs, manufacturing gained 27,000 jobs, and healthcare secured 37,000 jobs. In other news, this week the ISM manufacturing survey dropped from 60.6 to 59.5 in July. The new orders index also declined, falling to 64.9. Overall, 17/18 industries reported growth. Finally, on Wednesday, the ISM services survey increased from 60.1 to 64.1 in July (an all-time high). The new orders index rose to 63.7 and 17/18 industries reported growth.

Fixed Income/Credit Market

The Bloomberg 10-year AAA benchmark currently yields just 0.84%, roughly 129 basis points (bps) below the historic average. For yield-starved investors, New Jersey's higher taxes and lower-rated debt at the state level (Moody's A3/S&P BBB+) create many pockets of opportunity for residents buying NJ muni bonds. The Bloomberg 10-year NJ AAA benchmark is trading at 1.04%, a yield pickup of 20 bps vs the 10-year AAA national benchmark. From a relative value perspective, the 10-year AAA municipal to U.S. Treasury (UST) ratio stands at just 68.5%; meanwhile, New Jersey's 10-year AAA muni to UST ratio is approximately 81%. For context, the 10-year AAA muni to UST ratio historic average is 95%. This past week a Moody's Aaa rated New Jersey 10-year muni bond priced at 1.42% which equates to a muni to UST ratio of 111%. New Jersey residents in the highest tax bracket who participated in the deal obtained a taxable equivalent yield of 2.64%.

Equities

Stocks wavered throughout the week as company earnings, economic data, monetary policy questions, and concerns over the Delta variant created volatility within markets. Monday and Wednesday saw equities finish mostly lower, whereas Tuesday, Thursday, and Friday were up-days for the major indices. On the week, the S&P 500, Dow, and Nasdaq rose 0.94%, 0.78%, and 1.11%, respectively. Value and growth names were roughly on par with one another on a week-to-date basis, with growth outpacing its value counterpart by only 9 basis points. The two tracking indices for growth and value rose 0.94% and 0.85%, respectively, for the week. Financials was the leading sector, rising 3.56%, and utilities followed at 2.28%. The jump in the financials space was attributed to earnings in the banking industry as well as a significant rise in 10-year Treasury yields. On the opposite end, consumer staples was the lagging sector for the week, finished at -0.55%.



Our View

There seems to be a significant disconnect between the bond market and economic data. The 10-year Treasury has persistently declined from 1.74% at the end of the first quarter to 1.17% in early August. During this time, the U.S. economy has been robust. GDP in the second quarter rose 6.5% at a quarter/quarter seasonally adjusted annual rate. With current GDP of $19.4 trillion, the domestic economy is back above pre-Covid levels. Even though the labor market is still recovering, the consumer sector has been the key growth driver. Personal consumption expenditures on goods rose at an 11.6% rate, and spending on services rose at an equally robust 12% rate in the second quarter. Friday's release of July's employment statistics indicated labor market strength, and that momentum of the economy continued into the third quarter. A particularly interesting aspect of the labor report was the year-over-year wage growth of 4.0%, which suggests that businesses have to pay higher wage rates to compete for the pool of available workers. The labor force grew by only 261,000 in July, despite the employment deficit from the last cyclical peak still at 5.7 million, implying that higher wages in the future may be required to induce more people into the labor force.

Certainly, unemployment benefits running out will help pull people into the labor force and mitigate some of the wage inflation ahead. But wage pressure and a rapidly recovering labor market could potentially pull forward the Federal Reserve's bond tapering. The Fed is focused on payroll employment advancing as a precondition to tapering. The July labor report will force Fed Chair Powell to address tapering at either the Fed's Jackson Hole meeting on August 26th or after the FOMC meeting in September. Regarding the disconnect between declining interest rates and the economy, two explanations are plausible. First, the market has become concerned with the potential economic impact of the Delta variant on second-half growth. There is no evidence yet in either the high-frequency data or the reported economic statistics to indicate an effect. Second, the market accepts the Fed's forward guidance suggesting a very long path for increasing short-term interest rates.

COMING UP NEXT WEEK		Consensus	Prior
08/09 JOLTS Job Openings	(Jun)	9,125K	9,209K
08/10 Productivity SAAR Q/Q (Preliminary)	(Q2)	3.4%	5.4%
08/11 CPI ex-Food & Energy SA M/M	(Jul)	0.40%	0.90%
08/12 PPI ex-Food & Energy SA M/M	(Jul)	0.40%	1.0%
08/12 PPI SA M/M	(Jul)	0.40%	1.0%
08/13 Michigan Sentiment NSA (Preliminary)	(Aug)	81.0	81.2

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