Peapack Private
Wealth Management

# The Weekly
## Economic & Market Recap

November 12, 2021

| 11/12/2021 | | Wk | Wk | | YTD | 12 Mos |
|---|---|---|---|---|---|---|
| | | Net | % | Div | % | % |
| **STOCKS** | Close | Change | Change | Yield | Change | Change |
| DJIA | 36,100.31 | -227.64 | -0.63 | 1.71 | 17.95 | 24.14 |
| S&P 500 | 4,682.85 | -14.68 | -0.31 | 1.28 | 24.67 | 32.40 |
| NASDAQ | 15,860.96 | -110.63 | -0.69 | 0.61 | 23.06 | 35.45 |
| S&P MidCap 400 | 2,901.71 | -3.40 | -0.12 | 1.29 | 25.80 | 40.19 |

| **TREASURIES** | Yield | **FOREX** | Price | Wk %Change |
|---|---|---|---|---|
| 2-Year | 0.52 | Euro/Dollar | 1.14 | -0.95 |
| 5-Year | 1.23 | Dollar/Yen | 113.96 | 0.44 |
| 10-Year | 1.57 | GBP/Dollar | 1.34 | -0.70 |
| 30-Year | 1.94 | Dollar/Cad | 1.26 | 1.08 |

Source: Bloomberg/FactSet

### What Caught Our Eye This Week

On Monday the United States lifted the international travel ban, in place since the beginning of the pandemic, opening its doors to visitors from 30 countries for the first time in the last 20 months. The embargo will be replaced with new rules which require travelers to show proof of vaccination and a recent negative Covid test unless they are under age 18 or coming from nations with low vaccine availability. The changes are expected to be an almost immediate boon to the revenue of the hospitality industry. Hotels, retailers, restaurants, and especially airlines should benefit from these much anticipated announcements. Airlines have reported a jump in bookings to the U.S. and expect an immediate surge in travelers, even before peak holiday periods. The modification of U.S. policy is likely to help the borders with Canada and Mexico, whose malls, eateries, and Main Street shops have been devastated since the U.S. shut down all non-essential travel. Attendance at American theme parks, however, may take a while longer to recover given the higher costs and long-range planning associated with visits. Walt Disney Company executives mentioned during a recent conference call that they foresee a recovery in international attendance (comprises 10-20% of total parkgoers) in the second half of 2022.

### Economy

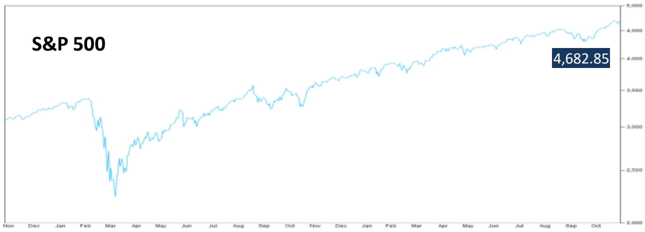
This week the economic data was dominated by inflation statistics with the release of the consumer price index (CPI) and producer price index (PPI). On Wednesday, the CPI came in well above consensus, posting a 0.9% increase in October. This is the fifth straight month of inflation above 5%. Year-over-year this metric has surged 6.2%, which is the fastest 12-month pace since 1990. The “core” CPI posted a 0.6% advance and is now up 4.6% over the past 12 months. This is the largest increase for the “core” CPI going back to 1991. Prices for new vehicles surged 9.8% in October, the largest gain since 1975. Restaurant prices soared 5.3% and prices for furniture and bedding increased the most since 1951. On Tuesday, the PPI also posted elevated inflation numbers with an increase of 0.6% in October. This metric is now up 8.6% year-over-year. The “core” PPI advanced 0.4% and has risen 6.8% over the past 12 months. The “core” PPI was heavily influenced by a 6.6% surge in construction prices. Finally, on Friday, the JOLTS report (job openings and labor turnover survey) showed 10.4 million job openings on the last day of September. The “quits” rate rose to a series high of 3.0% and the net change in employment over the past 12 months ending in September is 5.6 million.

### Fixed Income/Credit Market

It was a volatile week for U.S. Treasury yields which ultimately ended Friday anywhere from roughly flat to approximately 19 basis points (bps) higher. But despite the potential impact of higher interest rates on corporate balance sheets, credit spreads indicated market participants were unperturbed. In fact, credit spreads moved in the opposite direction of what we may have anticipated with all the volatility and risk seemingly in the marketplace. One theory could be that while higher costs of debt could put negative pressure on companies, those pressures could be offset by higher growth and inflated prices. In the investment grade sector, the 5-year AA, A and BBB-rated composites are currently 2.5 bps, 3 bps, and 5 bps lower, respectively. The high yield sector saw the 5-year BB and B-rated composites narrow 8.7 bps and 11.4 bps, respectively. Week-over-week, option adjusted spreads (OAS) increased 1 basis point on the Bloomberg Barclays U.S. Aggregate Corporate Index (Investment Grade) while the OAS on the Bloomberg Barclays U.S. Corporate High Yield Index decreased 4 bps.

### Equities

Despite rising on Friday, U.S. domestic equities snapped a five-week winning streak as the S&P 500, Dow, and Nasdaq all posted losses. The three indices fell -0.31%, -0.63%, and -0.69%, respectively, on the week. The retreat was prompted by economic data which showed that inflation has now risen to a three-decade high and is poised to remain present within the economy for longer than originally forecasted. According to FactSet, 285 companies cited inflation as an area of caution during their third quarter earnings calls – the largest number since 2010. As a result of the data and company insight, investors have begun speculating that the Federal Reserve may begin to raise interest rates in the second half of 2022. Traders, however, feel there is reason to remain optimistic for stocks as many believe companies still have adequate pricing power. On the week, value outperformed growth, and materials topped all sectors with a 2.51% gain. Consumer discretionary lagged, dropping -3.19%, primarily due to weakness in Tesla.




### Our View

The House of Representatives recently passed a bipartisan hard infrastructure bill that represents additional spending of over $1 trillion in the coming years. The bill is expected to be signed by President Biden on Monday and adds to the extraordinary fiscal stimulus that has been implemented since the start of the pandemic. Given the extreme hardships caused by the pandemic, the federal government ran a budget deficit of $3.13 trillion in 2020 and followed up with additional deficit spending of roughly $2.8 trillion in 2021. Gross federal debt to GDP has increased dramatically in recent years and resides north of 120%. The Congressional Budget Office estimated back in July that the federal deficit would shrink to approximately $1.2 trillion in 2022 but with the progression of the hard infrastructure bill and the potential for an additional $1.75 trillion social spending bill, the federal deficit moving forward could rise if it is not offset by increased sources of funding. For years, economists have posited that high levels of government debt will weigh on future growth potential. The question is, what level of debt will cause the tipping point? Recent work by Oliver Blanchard notes that if a government’s borrowing costs are below its growth rate, then federal debt can be sustained at a higher level. Looking back over the past decade in the U.S., it is interesting to note that the trend real GDP growth rate has run consistently higher than the real interest rate it has paid on its total debt. One of the major keys to maintaining financial stability in the wake of current massive fiscal deficits is for real interest rates to remain low. However, the federal government needs to be cognizant of the additional fiscal spending pushing too hard on aggregate demand, which could add upward pressure to already elevated rates of inflation. Also, at some point investors may push back from negative real rates on U.S. Treasuries, which could send rates higher. Right now, the forward U.S. Treasury curve shows rates increasing moving forward but at a very measured pace. If that is the case, we would expect financial conditions to remain stable, but if interest rate rise more rapidly than the market expects, volatility will most likely increase.

| COMING UP NEXT WEEK | | Consensus | Prior |
|---|---|---|---|
| 11/16 Retail Sales SA M/M | (Oct) | 0.85% | 0.70% |
| 11/16 Industrial Production SA M/M | (Oct) | 0.85% | -1.3% |
| 11/16 Manufacturing Production M/M | (Oct) | 0.80% | -0.76% |
| 11/18 Initial Claims SA | (11/13) | | 267.0K |
| 11/18 Philadelphia Fed Index SA | (Nov) | 22.0 | 23.8 |
| 11/18 Leading Indicators SA M/M | (Oct) | 0.80% | 0.20% |

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