Peapack Private Wealth Management

May 22, 2020

5/22/2020		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	24,465.16	779.74	3.29	2.65	-14.27	-5.46
S&P 500	2,955.45	91.75	3.20	2.05	-8.52	3.18
NASDAQ	9,324.59	310.03	3.44	0.92	3.92	19.77
S&P MidCap 400	1,695.33	117.07	7.42	2.05	-17.82	-10.76

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.17	Euro/Dollar	1.09	0.67
5-Year	0.34	Dollar/Yen	107.47	0.16
10-Year	0.66	GBP/Dollar	1.22	0.53
30-Year	1.37	Dollar/Cad	1.40	-0.32

Source: Bloomberg/FactSet

What Caught Our Eye This Week

The S&P 500 Index is widely considered to be a proxy for the U.S. equity market. The selection of its constituents is at the discretion of the Index Committee and is based on specific eligibility criteria. To be considered for inclusion in the index, a company must meet the following criteria: it must be a U.S. company; it must have a market capitalization of $5.3 billion or more; the public float must consist of at least 50% of the shares outstanding; it must have positive reported earnings in the last four quarters. The Index rebalancing usually occurs quarterly but was postponed for March due to "extreme global market volume and exchange closures." The committee can also elect to make changes on a rolling basis as it did this week. After the close of trading today, Helmerich & Payne, an oil & gas drilling company, will be removed from the S&P 500 due to its market cap falling below the minimum and West Pharmaceutical Services, a medical specialties company, will be added. Index providers have considerable influence over what is included in an index. Which companies go into the S&P 500 is just as important as which ones come out. Without significant weightings in companies like Apple, Microsoft and Alphabet's Google, the S&P 500's returns over the past decade would have been 23% lower, according to DataTech Research.

Economy

This week there were no highlights as economic numbers continue to be negative and dismal. On Tuesday housing starts posted a 30.2% decline in April to 891,000 units at an annual rate. These figures were below consensus (900,000) and housing starts have now plunged 29.7% year-over-year. Single family starts are down 24.8% in the past 12 months and multi-family starts are down 40.2%. Existing home sales data was released on Thursday and the decline was significantly larger than last month. These sales dropped by 17.8% to 4.33 million units at an annual rate in April. This is the largest monthly drop since July 2010, but the median price of an existing home advanced by 7.4% year-over-year to $287,000. Also on Thursday initial jobless claims increased by 2.44 million during the week ending May 16th. Claims have now declined for 7 weeks in a row from the peak of 6.87 million in late March. Unfortunately the number of people receiving benefits in the week ended May 9th increased to 25.1 million from 22.5 million a week earlier. Finally the Philadelphia Fed manufacturing survey showed a slight improvement increasing from -56.6 in April to -43.1 in May.

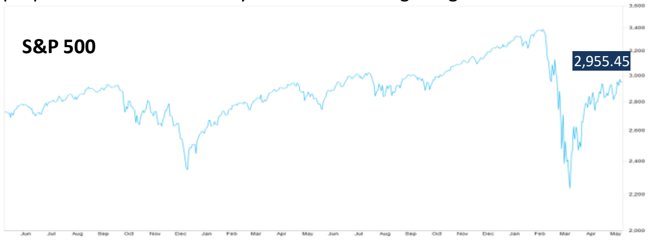
Fixed Income/Credit Market

On Wednesday, the U.S. Treasury held its first 20-year bond auction since 1986 which drew a yield of 1.22%, slightly higher than the anticipated pre-market 1.213%. Nonetheless, demand was strong with a bid-to-cover ratio of 2.53 times. With no previous 20-year auction results to compare, the strength in demand can be gauged by the recent 10-year and 30-year auctions bid-to-cover results of 2.69x and 2.3x, respectively. While the absolute level of U.S. Treasury yields is historically low, they continue to be an attractive alternative versus our global peers.

Global 10-Year Yields		
Country	**Rate**	**Basis point spread vs U.S.**
U.S.	0.659	
U.K.	0.17	-48.9
France	-0.039	-69.8
Germany	-0.492	-115.1
Italy	1.592	93.3
Spain	0.616	-4.3
Switzerland	-0.557	-121.6
Japan	-0.011	-67

Equities

Domestic equities posted a strong week of gains with all three major indexes rallying over 3%. On Monday, stocks saw their biggest one-day gain since early April after Federal Reserve Chair Jerome Powell stressed that the central bank is ready and capable of providing additional monetary stimulus. The risk-on sentiment was further bolstered by Moderna reporting positive data on an early-stage coronavirus vaccine trial. Stocks bounced around for the balance of the week but were able to close at the highest level since March 6th on Wednesday. Interestingly, the strongest performers this week were mid and small-cap stocks. The S&P Mid Cap 400 and the Russell 2000 ended the week up 7.4% and 7.8%, respectively. The bullish narrative continues to point to unprecedented fiscal and monetary stimulus, optimism around a potential coronavirus vaccine, the U.S. reopening its economy and signs of a bottoming in global economic activity. One item to monitor is the renewed tension between the U.S. and China which continued to escalate this week after President Trump promised a strong response if Beijing follows through with their proposed strict new security measures in Hong Kong.



Our View

With cases of COVID- 19 totaling more than 5,000,000 around the world, the entire global economy has been devastated by this horrific disease. According to the International Monetary Fund, real global GDP is expected to wither by 3% in 2020, which would surpass the economic contraction caused by the global financial crisis between mid-2007 to 2009. Regional growth projections for 2020 range from positive 1.5% in South Asia to negative 7.3% in Western Europe. Unfortunately, economic momentum in Western Europe was already deteriorating heading into this year as the trade war of 2019 weighed heavily on the region's exports. Moreover, the past decade has been tenuous for the European Union (EU) as it has dealt with a sovereign debt crisis, an immigration wave and Brexit. However, the lockdown recession caused by the coronavirus represents the greatest challenge the EU has faced since World War II. The European Central Bank has been aggressively implementing accommodative monetary policies for over 8 years through low to negative interest rates and a massive expansion of its balance sheet, but more undoubtedly needs to be done. Eurobonds and the mutualization of debt have been proposed in the past but has not gained traction as the more solvent nations within the EU have not wanted to burden their taxpayers with the debts of less frugal nations. Difficulties have also arisen in the EU since there is no common treasury to direct funds to where they are needed the most. The nations that have been heavily impacted by the pandemic unfortunately have less capacity from a fiscal perspective to stimulate their economies. Also, European countries in the currency bloc are precluded from devaluing their currency during times of economic hardship, which can prolong their recoveries. But, with the recent agreement between Germany and France to support a €500 billion recovery fund, there is hope on the horizon. If the recovery fund is approved by the EU members, the proceeds would flow to the areas in greatest need in the form of grants. At this point, not all EU members are behind the recovery fund; however, France and Germany have made tangible progress towards creating EU debt and alleviating, to a degree, some of the economic imbalances that have evolved in Europe over the years.

COMING UP NEXT WEEK		Consensus	Prior
05/26 Consumer Confidence	(May)	90.0	86.9
05/28 Durable Orders SA M/M (Prelim.)	(Apr)	-18.0%	-15.3%
05/28 GDP SAAR Q/Q (Second Prelim.)	(Q1)	-4.8%	-4.8%

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