Peapack Private

Wealth Management

The Weekly

Economic & Market Recap

November 20, 2020

11/20/2020		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	29,263.48	-216.33	-0.73	2.12	2.54	4.76
S&P 500	3,557.54	-27.61	-0.77	1.69	10.11	14.02
NASDAQ	11,854.97	25.68	0.22	0.74	32.12	38.32
S&P MidCap 400	2,147.61	34.35	1.63	1.55	4.10	7.31

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.15	Euro/Dollar	1.19	0.29
5-Year	0.37	Dollar/Yen	103.82	-0.79
10-Year	0.83	GBP/Dollar	1.33	0.96
30-Year	1.52	Dollar/Cad	1.31	-0.74

Source: Bloomberg/FactSet

What Caught Our Eye This Week

Excess capacity and high storage costs are leading to car-carrying vessels, iron-ore haulers, and vintage cruise ships either being sold for pennies on the dollar in sealed-bid auctions or sent to scrap yards around the globe as their owners struggle to repair balance sheets that have been devastated by the pandemic. Both cruise ships idled by pandemic-related restrictions and freighters which have seen less use as a result of the industrial downturn are in line to be demolished at ship-breaking yards, where they will be torn apart for the value of their steel. Despite scrap sites being closed for 3 months earlier this year, the 557 overall ship demolitions through October is 63% of the total for 2019 according to VesselsValue, a U.K.-based maritime data provider. This year's figure remains well below the 1,996 vessels recycled in 2012, when a huge overhang of shipping capacity was removed post the 2008 financial crisis. In addition to the business considerations brought on by lack of cargo and passengers, rising steel prices are compelling vessel operators to salvage value from ships. Selling a 25-year old ship to recycling companies yields approximately 20% of the vessel's original purchase price at a time when the shipping industry needs billions in capital not only to survive but also to invest in a new generation of environmentally friendly ships.

Economy

This week the economic data centered around housing statistics with good news among three reports. First on Tuesday the NAHB survey (National Association of Home Builders) reached a new all time high, rising from 85 to 90 in November. Housing starts were released on Wednesday and posted a 4.9% rise to 1.530 million units at an annual rate in October. Single family starts and permits increased 6.4% and 0.6%, respectively. The positive housing data continued on Thursday with existing home sales registering an impressive 4.3% increase in October. Total sales came in at 6.85 million at an annual rate, which is a 14-year high. Existing home sales have now increased for five consecutive months and have advanced 26.6% year-over-year. Moving away from housing data, retail sales were released on Thursday and posted a 0.3% increase in October, which was a bit shy of expectations. The "control" group, which excludes food service, autos, gas and building materials, advanced 0.1%. Retail sales are now up 5.7% over the past twelve months and 4.9% higher than the February pre-Covid high water mark.

Fixed Income/Credit Market

On Thursday, U.S. Treasury Secretary Steve Mnuchin sent a letter to Federal Reserve officials suggesting that the FOMC put an end to the emergency lending programs which expire on December 31, 2020. However, the FOMC responded quickly and recommended that the emergency facilities established during the pandemic continue to provide a backstop for a vulnerable economy. Included in these programs are the Municipal Liquidity Facility (MLF) and the Primary and Secondary Corporate Credit Facilities (PCCF and SCCF). A scarcely utilized MLF is evidence of the program's effectiveness at providing a backstop for state and local municipalities. Allowing the MLF to expire could have dire consequences for the areas of our economy hit hardest by the pandemic. Conversely, corporate bond yields are at historic lows, possibly suggesting that the PCCF and SCCF are not a necessity moving forward. Regardless of the dissenting opinions making headlines, the cost of insuring against corporate defaults increased on Friday. 5-year investment-grade credit default swaps (CDX) increased 2.5 basis points (bps) while 5-year high yield CDX increased 11.9 bps.

Equities

Equities had a mixed week of performance as positive headlines about the efficacy of the new coronavirus vaccines clashed with muted investor sentiment. The choppiness appears to be the market attempting to find a balance between the long-term good news associated with the vaccines, and the short-term negatives linked to the rising case count, states' new lockdown orders, and uncertainty over the amount of support the Fed will provide for the economy. After a strong rally following the presidential election, some investors are viewing this week's movement as a healthy pause, but ultimately expect stocks to remain volatile until 2021, once the global rollout of vaccines is in full effect. The S&P 500 and Dow both finished with weekly losses, -0.77% and -0.73%, respectively, while the Nasdaq notched a 0.22% gain for the week. The top performing sector for the week was energy, up 5.56%, while utilities lagged down 3.93%.

Our View

Positive developments regarding a vaccine from both Moderna and Pfizer over the last couple of weeks have driven a strong equity market rally. Investors are cheering the prospect of a widely available vaccine by the middle of next year, which should greatly diminish the risk to the current cyclical recovery. With the potential for consumer behavior to gradually return to a semblance of normalcy toward the end of 2021, equity investors can feel more confident that the robust earnings rebound which is already underway can continue. Most companies in the S&P 500 have reported third quarter earnings with 84% reporting a positive surprise. Expectations going into the quarter were admittedly very low and blended earnings are still likely down 6.3% year-over-year for the quarter. However, the positive tone of the earnings reports has driven the twelve-month consensus forward earnings estimate up over 7% to $166 over the last two months. Robust economic growth next year should provide for solid earnings growth. Many economists expect the domestic economy to grow well above 4% next year with the global economy growing even faster at a rate above 6%. Strong economic growth, supported by remarkably accommodative monetary policy and a huge fiscal deficit of 8.6% of GDP, should allow for significant revenue growth and margin expansion. Additionally, low borrowing costs due to extremely low interest rates will also lift earnings and cash flows. The strong move in the equity market in November, although somewhat startling, is logical. The brighter prospects ahead do not diminish the short-term concerns that could make financial markets uncomfortable as we close out the year. The coronavirus's spread has accelerated across the country and we are now recording the highest-ever number of new reported cases. Fourth quarter estimates for GDP growth are being lowered due to rolling lockdowns. There are several reasons that suggest the economic impact of a second lockdown will be less severe. Both individuals and corporations are better positioned to handle the disruption. Despite the potential for increased volatility, investors need to remain focused on the cyclical recovery ahead.

COMING UP NEXT WEEK		Consensus	Prior
11/24 Consumer Confidence	(Nov)	98.0	100.9
11/25 Durable Orders SA M/M (Preliminary)	(Oct)	1.4%	1.9%
11/25 Michigan Sentiment NSA (Final)	(Nov)	77.5	77.0P
11/25 New Home Sales SAAR	(Oct)	968.0K	959.0K
11/25 Personal Consumption Expenditure SA M/M	(Oct)	0.75%	1.4%
11/25 Personal Income SA M/M	(Oct)	0.10%	0.90%

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