PEAPACK PRIVATE
*Wealth Management*

# The Weekly
## Economic & Market Recap

February 5, 2021

| 2/5/2021 | | Wk | Wk | | YTD | 12 Mos |
|---|---|---|---|---|---|---|
| | | Net | % | Div | % | % |
| **STOCKS** | Close | Change | Change | Yield | Change | Change |
| DJIA | 31,148.24 | 1165.62 | 3.89 | 1.94 | 1.77 | 8.12 |
| S&P 500 | 3,886.83 | 172.59 | 4.65 | 1.49 | 3.48 | 17.87 |
| NASDAQ | 13,856.30 | 785.60 | 6.01 | 0.67 | 7.51 | 46.35 |
| S&P MidCap 400 | 2,476.67 | 136.55 | 5.84 | 1.34 | 7.37 | 20.48 |

| **TREASURIES** | Yield | **FOREX** | Price | Wk %Change |
|---|---|---|---|---|
| 2-Year | 0.09 | Euro/Dollar | 1.20 | -1.02 |
| 5-Year | 0.46 | Dollar/Yen | 105.46 | 0.74 |
| 10-Year | 1.17 | GBP/Dollar | 1.37 | -0.05 |
| 30-Year | 1.97 | Dollar/Cad | 1.28 | -0.01 |

Source: Bloomberg/FactSet

### What Caught Our Eye This Week

The NFL is an economic powerhouse. As a single entity with multiple franchises operating underneath, it is one of the largest entertainment operations in the world today. In fact, in 2015, the league gave up its tax-exempt status—which it held since 1947—as a response to criticism of its fast-growing revenue. With viewership down about 7% this season and fans allowed in stadiums only on a limited basis or not at all, it is estimated that the NFL will lose about $4 billion in revenue due to the pandemic. However, one of the NFL's biggest revenue sources, aside from its TV deals, is its corporate sponsors, earning the league at least $1 billion each year. They are some of the most recognizable brands in the world: Amazon ($75 million), Oakley ($75 million), Pepsi ($100 million), Nike ($120 million), Anheuser-Busch ($230 million) and Verizon Wireless ($300 million), among others. And companies are still lining up to do business with the NFL despite a tumultuous 2020. New sponsors include Subway, which replaced McDonalds, and Postmates, which is the first food delivery service company to sponsor the NFL. The NFL's Commissioner has targeted $25 billion in revenue by 2027.

### Economy

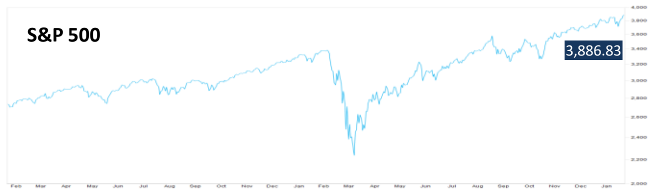
The economic headliner this week was the nonfarm payroll report, which was released on Friday. This report showed payrolls increasing by 46,000 in January, and the unemployment rate declining from 6.7% to 6.3%. The broad U-6 measure of unemployment also declined, dropping from 11.7% to 11.1%. The labor force participation rate decreased to 61.4%. Examining the different employment sectors, professional and business services gained 97,000 jobs, healthcare lost 30,000 jobs, and leisure and hospitality shed 61,000 jobs. The payroll diffusion index, which measures the number of industries that increased employment last month dropped to 48.1%. Overall, the best news was the average private work week jumped 0.3 hours last month to 35.0 hours, a new high for the series which began in 2006. In other news this week, the ISM manufacturing survey decreased from 60.5 to 58.7 in January. The new orders index dropped to 61.1 from 67.5. and overall 16/18 industries reported expansion. Finally, on Wednesday, the ISM nonmanufacturing survey posted a slight increase, rising from 57.7 to 58.7 in January. The new orders index rose to 61.8, and 14/18 industries reported growth.

### Fixed Income/Credit Market

Fixed income performance during the month of January was on the weaker side as U.S. Treasury yields began the year moving in an upward fashion while market participants digested the potential implications of additional fiscal stimulus and the continued rollout of vaccines. Over the course of the month, the U.S. Treasury curve steepened 17 basis points between the 2 and 10-year tenors, which weighed heavily on duration. Moreover, long-term high-quality bonds lost 2.92% in January and preferred equities were down 1.71%. However, there were some fixed income asset classes that have started 2021 on a modestly positive note. Given the lack of supply due to limited issuance coupled with sizable maturities and calls, municipal bonds returned 34 basis points over the course of the past month. Also, with market-based inflation expectations on the rise (the 10-year TIPS breakeven increased 11bps in January to 2.10%), TIPS returned 27 basis points. Interest rates are expected to continue to move higher at a measured pace. At this point, economists surveyed by Bloomberg predict the 10-year U.S. Treasury to end the year at 1.34%.

### Equities

U.S. domestic equities saw big weekly gains as investors' buy-the-dip mentality, following last week's pullback, propelled the S&P 500, Nasdaq, and Russell 2000 to new record highs on Friday. In particular, the S&P 500 climbed 4.65% over the week, its largest one-week gain since early November. Senate Democrats utilized a special procedure on Friday which will enable them to pass the newest coronavirus relief package with a simple majority. The proposed aid package would be a huge boost to the economy and is being viewed by investors as a means to shore up any short-term risks until the vaccine rollout becomes more streamlined. News of the relief package, combined with Johnson & Johnson's request for emergency use of its single-shot vaccine, served as additional tailwinds for the week's rally. Strong earnings continue to boost markets as well. With 59% of the companies within the S&P 500 having reported earnings, 81% have reported a positive EPS surprise and 79% have reported a positive revenue surprise. Sector wise, all but healthcare gained over 2% on the week. Energy and communication services led the pack, gaining 8.29% and 7.25%, respectively.




### Our View

Mean reversion is a long-held concept in finance. Mean reversion essentially states that any price that moves too far from the long-term norm will eventually return to its average or trend. Financial assets in relation to each other are inherently mean reverting. As prices for an asset rises, the risk and return tradeoff shifts and investors eventually reallocate capital toward other assets with a more favorable tradeoff. This is the core dynamic at play in relative valuations between different asset classes. The risk and return tradeoff provide a limiting factor that constricts the relative valuations between two different assets or asset types. The fundamental problem for investors trying to implement mean reversion strategies in portfolio management is that the timing of the corrective phase of the mean reversion is highly uncertain. For several years, many analysts have been anticipating the gulf in valuation between growth stocks and value-oriented stocks would soon correct. The Russell 1000 Growth Index is currently 79% above its 10-year average forward price-to-earnings multiple compared to only 20% for the Russell 1000 Value Index. Over the past decade, there have been several brief periods of outperformance from value stocks but never for any sustained period. During the fourth quarter, value stocks materially outperformed. Analysts have also focused on small cap stocks which, after many years of lagging performance, hold relative value compared to other asset classes. Small cap stocks are substantially outperforming all other major asset classes this year rising over 12% and have been able to maintain their momentum from the end of last year. The Russell 2000 Index, as a measure of small cap performance, is up approximately 32% versus 16% for the S&P 500 over the last twelve months. Time will tell if this will be an elongated period of outperformance for areas of the market that have lagged the FANNG stocks. Historically, economic regime changes have been periods when market leadership shifts. Mean reversion suggests the time is coming for value and small cap, as well as international equities. Mean reversion and the difficulty in timing the corrective phase are also major reasons why diversification works to provide a superior risk adjusted return relative to any specific benchmark. It is also why it makes sense to maintain a disciplined approach to portfolio construction.

| COMING UP NEXT WEEK | | Consensus | Prior |
|---|---|---|---|
| 02/10 CPI ex-Food & Energy SA M/M | (Jan) | 0.10% | 0.10% |
| 02/10 CPI SA M/M | (Jan) | 0.30% | 0.40% |
| 02/11 Initial Claims SA | (02/06) | 842.5K | 779.0K |
| 02/12 Michigan Sentiment NSA (Preliminary) | (Feb) | 80.8 | 79.0 |

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