PEAPACK PRIVATE
Wealth Management

The Weekly
Economic & Market Recap

August 13, 2021

8/13/2021		Wk Net	Wk %		YTD %	12 Mos %
STOCKS	Close	Change	Change	Div Yield	Change	Change
DJIA	35,515.38	306.87	0.87	1.70	16.04	27.31
S&P 500	4,468.00	31.48	0.71	1.31	18.95	32.45
NASDAQ	14,822.90	-12.86	-0.09	0.64	15.01	34.24
S&P MidCap 400	2,731.46	14.10	0.52	1.27	18.42	39.89

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.21	Euro/Dollar	1.18	0.28
5-Year	0.78	Dollar/Yen	109.87	-0.42
10-Year	1.28	GBP/Dollar	1.39	-0.08
30-Year	1.93	Dollar/Cad	1.25	-0.54

Source: Bloomberg/FactSet

What Caught Our Eye This Week

The pandemic and the ensuing labor shortage have kickstarted a turn to automation. Robots and automation are considered mainstream in ware-houses as well as the auto industry. Many businesses, especially restaurants, are embracing automation after months of waiting for workers to rejoin the labor force. As of May 31st, there were more than 1.3 million unfilled job openings at restaurants and hotels according to the Labor Department. For restaurants, automating food production has a significant challenge but advances in technology have enabled robots to grow from repetitive tasks to more complex processes. To automate other areas, restaurants have adopted technology such as QR-codes and mobile apps to eliminate low paid workers. The benefits of automation are long lasting and will boost productivity. Economists say the shift to automation has been underway for many months and contributed to the 5.4% surge in productivity in the first quarter. It was the largest improvement in 20 years. Strategists at Bank of America report that up to 40% of existing U.S. jobs are in categories that are vulnerable to automation. Further, they estimate by 2025, the global economy will be populated by twice as many robots as in 2019.

Economy

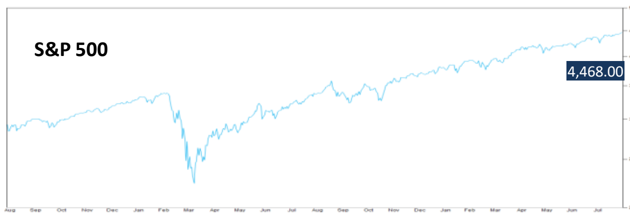
This week the economic data centered around inflation statistics with the release of the consumer price index (CPI) and the producer price index (PPI). On Wednesday, the CPI matched consensus expectations, posting a 0.5% increase in July. Year-over-year this metric has surged 5.3%, which is a tick below the year-over-year rate achieved last month. The "core" CPI posted a 0.3% rise and is now up 4.2% over the past twelve months. The historic run of large increases in used vehicle prices came to an end with a modest increase of 0.2%. Lodging prices advanced 6.0%, energy prices rose 1.6% and food prices were up 0.7%. The PPI was released on Thursday and came in well above consensus, gaining 1.0% in July. This metric is now up 7.8% year-over-year. The "core" PPI also rose 1.0% and is now up 6.2% over the past twelve months. Energy prices increased 2.6% and supply chain issues continue to be a significant pressure on prices. Finally, the JOLTS report (job openings and labor turnover survey) showed 10.073 million job openings on the last day of July, a new all-time high. The "quits" rate remained at 2.7% and the net employment gain over the past year is 6.9 million.

Fixed Income/Credit Market

Interest rates on the long-end closed this week lower anywhere from -1.1 basis points (bps) to -1.9 bps. The 3-year and 5-year tenors backed up 2.3 bps and 1.2 bps, respectively. The moves in 3Y and 5Y Note yields were most likely brought on by the CPI data bringing forward the potential of a rate hike which would be preceded by the Fed's tapering of quantitative easing (QE). The consensus is for an announcement of Fed tapering in November or December with implementation commencing in January. The end of QE in prior periods resulted in lower yields in anticipation of rate hikes which the markets tend to view as an inhibitor of growth and inflation. Currently, the 10-year Treasury yield is trading towards the middle of its two-week range of 1.17% to 1.36%. The two-week average is roughly 1.27%. If tapering and rate hikes are pulled forward, we may have already seen the cycle peak for 10-year yields at 1.77% in March.

Equities

Domestic equities continued their upward trajectory during a relatively quiet week, with the S&P 500 closing at a new all-time high on Friday. The coronavirus Delta variant of the coronavirus has been the particular focus recently, but investors have been largely ignoring the heightened number of new cases which are now back at levels seen during the winter surge six months ago. The bullish narrative continues to be supported by an accommodative Fed, fiscal policy stimulus, and strong corporate earnings relative to expectations. On Tuesday, the Senate passed a $1 trillion bipartisan infrastructure bill and a budget resolution calling for $3.5 trillion more in spending, but the House is unlikely to pass either proposal for months. This week, value stocks outperformed their growth counterparts which was likely due to a recent increase in bond yields. In addition, large cap equities outperformed small cap with the S&P 500 and Russell 2000 returning +0.71% and -1.10%, respectively. Energy was the only sector to decline on the week as many expect oil demand to be hampered by a resurgence in the coronavirus. Materials and consumer staples outperformed gaining 2.68% and 2.08%, respectively.



Our View

Many Fed watchers expect the Federal Reserve to provide some clarity on the timing of reducing its massive bond purchase program at its August 26-28th Jackson Hole Economic Symposium. The Fed has been buying $120 billion worth of bonds every month ($80 billion in Treasuries and $40 billion in mortgage-backed securities) to support and assist the economy as it recovers from the global pandemic. Last week, Dallas Fed President Robert Kaplan joined the chorus calling for an earlier start to bond tapering. Kaplan, along with St. Louis Fed President James Bullard and Fed Governor Christopher Waller, have all recently expressed their desire to start tapering in the next few months. The only difference is the speed with which they want tapering to be implemented. Mr. Waller would prefer a more aggressive approach to position the Fed to raise rates next year if needed. The Fed "doves" are more in the camp of starting the tapering in the first quarter of 2022, with the initial rate increase sometime in 2023. In general, many market analysts expect some announcement by the Fed by year-end. Often, Fed officials will publicly comment to test the market reaction to a change in policy. The market's response allows the Fed to modify the message or adjust the timing of a policy change. The Fed will also use public comments to condition the financial markets to a shift in policy. So, when the policy adjustment is implemented the market reaction will be more muted. Perhaps the recent comments from Fed officials are aimed at preparing financial markets for the Fed to announce tapering at its September FMOC meeting. If so, we would expect further indications at Jackson Hole. Regardless of when tapering begins, tapering is likely to be a slow, deliberate process that we would expect financial markets to handle reasonably well. Although we expect increased volatility as the Fed reduces the level of liquidity available for the market, we do not expect a repeat of the "taper tantrum" in 2013.

COMING UP NEXT WEEK		Consensus	Prior
08/16 Empire State Index SA	(Aug)	25.0	43.0
08/17 Retail Sales ex-Auto Fuel M/M	(Jul)	0.0%	1.1%
08/17 Retail Sales ex-Auto SA M/M	(Jul)	0.15%	1.3%
08/17 Industrial Production SA M/M	(Jul)	0.50%	0.40%
08/18 Housing Starts SAAR	(Jul)	1,610K	1,643K
08/19 Philadelphia Fed Index SA	(Aug)	24.1	21.9
08/19 Leading Indicators SA M/M	(Jul)	0.65%	0.70%

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