PEAPACK PRIVATE
Wealth Management

The Weekly
Economic & Market Recap

July 16, 2021

7/16/2021		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	34,687.85	-182.31	-0.52	1.74	13.33	29.75
S&P 500	4,327.16	-42.39	-0.97	1.35	15.20	34.57
NASDAQ	14,427.24	-274.68	-1.87	0.65	11.94	37.75
S&P MidCap 400	2,617.95	-88.47	-3.27	1.33	13.50	43.11

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.23	Euro/Dollar	1.18	-0.47
5-Year	0.78	Dollar/Yen	110.11	-0.03
10-Year	1.30	GBP/Dollar	1.38	-0.30
30-Year	1.92	Dollar/Cad	1.26	0.98

Source: Bloomberg/FactSet

What Caught Our Eye This Week

During a traditional Initial Public Offering (IPO), company insiders and early investors are prohibited from selling their shares for a specific period of time. This phase, which usually lasts between 90 – 180 days, is known as the lockup period. A lockup helps to ensure an orderly IPO and to limit the supply of additional shares for sale within the market as the stock begins trading. History shows that some companies see their stock drop leading up to the lockup expiration or shortly afterward. Investors monitor lockup periods to gauge when the supply of stock available in the public market (known as the float) will increase significantly. This week, Robinhood Markets Inc. (whose IPO is scheduled for later this month) announced they will be changing the rules for early trading. The company will allow employees to sell shares (up to 15% of their holdings) immediately and then another 15% after three months. The Wall Street Journal reports that over the last twelve months, several companies have gone public with looser lockups. With the rules changing, it is important for investors to know the lockup schedule for a newly public company in which they are interested.

Economy

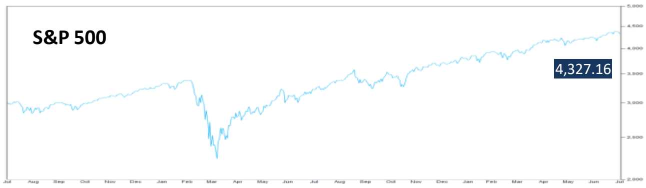
This week the economic data centered around inflation statistics with the release of the CPI and the PPI. On Tuesday, the consumer price index came in stronger than expected with an increase of 0.9% in June. Year-over-year this metric has surged 5.4%, which is the highest 12-month increase since August 2008. The "core" CPI posted a 0.878% rise and is now up 4.5% over the past 12 months. Once again used-car prices led the way soaring 10.5% and, over the recent two years, these prices are up an astounding 41.3%. Airfares are 24.6% higher than a year ago and hotel prices have advanced 16.9%. Hospitality wages increased 0.7% in June, the biggest monthly gain since 1981. The producer price index was released on Wednesday and posted a 1.0% increase in June and is now up 7.3% year-over-year. The "core" PPI also gained 1.0% and is now up 5.6% over the past 12 months. Motor vehicles and parts dealers led the way surging 4.0%. Finally, on Friday, retail sales figures came in better than expected increasing 0.6% in June. The retail "control" category also advanced, gaining 1.1%.

Fixed Income/Credit Market

On the surface, a heavy economic calendar coupled with FOMC President Powell's testimony this week on Capitol Hill appeared to induce a bout of U.S. Treasury yield volatility. However, when looking under the hood, the tight trading range of the 10-year U.S. Note rate and the Merrill Lynch Option Volatility Estimate (MOVE) Index paint a different picture. During the week, the 10-year yield traded between 1.3% and roughly 1.42%, a 12-basis point (bp) range that would not typically be classified as high volatility. Furthermore, the MOVE Index, which is a yield curve weighted index of volatility on 1-month Treasury options, closed just 0.6% lower than the prior week. The index did have a modest spike of 3.9% on Wednesday before dropping 5.9% on Thursday. The changes in the MOVE Index give the impression of a volatile week in Treasury yields but the small base numbers used in the calculation dramatize the effects. For context, the index is currently trading at 70.23.

Equities

Second quarter earnings season kicked off on Tuesday with banks reporting results. So far, bank earnings have mostly come in above analyst expectations. Some of the major takeaways include improving credit metrics, indicating the strength of the U.S. consumer, as well as continued robustness in investment banking and advisory activity. Although the reports and commentary were mostly constructive, banks ended the week -2.43% likely due to a flattening of the U.S. Treasury yield curve. According to FactSet's Earnings Insight report, the second quarter blended earnings growth rate for the S&P 500 is 69.3% which would be the highest year-over-year earnings growth rate since Q4 2009. Interestingly, for companies that generate more than 50% of sales domestically, the blended earnings growth rate is 62.0%. For companies that generate more than 50% of sales outside of the U.S., the blended earnings growth rate is 87.0%. Stocks ended the week with considerable declines which resulted in outperformance by defensive sectors such as consumer staples and utilities and underperformance by cyclical sectors such as consumer discretionary and energy.



Our View

Since last November, there has been a pervasive sense of optimism over the financial markets due to the emergence of several vaccines. Those vaccines have allowed us to essentially resume our lives in the U.S. and return to relative normalcy. The vaccines are reported to have 70%-90% efficacy against the most prevalent strains of the virus and appear to be almost as effective against the delta variant. Unvaccinated and immunocompromised individuals are still at significant risk – this is a real problem in several overseas economies due to low vaccination rates. With over 50% of the U.S. population fully vaccinated, our view is that it will be very difficult for federal and local governments to reimpose broad lockdowns that will have a meaningful economic impact. If the Delta variant or another strain emerges that ramps the Covid-19 case count and becomes a source of renewed anxiety, individual consumers could adjust their behavior, which could be a drag on spending and the economy. But it is not going to create another significant downdraft in economic activity. The U.S. consumer is too strong. Despite 6.7 million people still unemployed from the pandemic, the consumer's balance sheet is as strong as it has been in decades. Last year, the household debt burden stood at a 20-year low and savings rate at a 20-year high due to declining interest rates and a multi-year rise in disposable income. Household net worth grew a robust 10.3% in 2020 thanks to the strength in residential home values and the spike in stock prices. The inflation of asset prices has only accelerated this year, further strengthening household balance sheets. The consumer is also flush with cash. The personal savings rate, which is currently at 12.4%, is more than double the pre-pandemic level. Forced pent-up demand is already starting to reverse. Retail sales for June were surprisingly better than expected, with strong demand for electronics, clothing and restaurants. Given the general financial health of the consumer and the improving employment situation, the economy is highly unlikely to be derailed over the next few years. Although much of this economic strength is already priced into equity valuations, the strong economy should provide an excellent backdrop for robust earnings growth over the next few quarters, which should help to moderate extended valuations.

COMING UP NEXT WEEK		Consensus	Prior
07/20 Housing Starts SAAR	(Jun)	1,592K	1,572K
07/22 Existing Home Sales SAAR	(Jun)	5,900K	5,800K
07/22 Leading Indicators SA M/M	(Jun)	0.96%	1.3%
07/23 Markit PMI Manufacturing SA (Preliminary)	(Jul)	62.1	62.1
07/23 Markit PMI Services SA (Preliminary)	(Jul)	64.5	64.6

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