PEAPACK PRIVATE
Wealth Management

The Weekly
Economic & Market Recap

Peapack Private Wealth Management

May 15, 2020

5/15/2020		Wk Net	Wk %	Div	YTD %	12 Mos %
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	23,685.42	-645.90	-2.65	2.73	-17.01	-7.23
S&P 500	2,863.70	-66.10	-2.26	2.11	-11.36	1.03
NASDAQ	9,014.56	-106.76	-1.17	0.95	0.47	16.55
S&P MidCap 400	1,578.26	-97.92	-5.84	2.21	-23.50	-16.71

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.15	Euro/Dollar	1.08	-0.50
5-Year	0.31	Dollar/Yen	107.31	0.82
10-Year	0.64	GBP/Dollar	1.21	-2.63
30-Year	1.32	Dollar/Cad	1.41	1.08

Source: Bloomberg/FactSet

What Caught Our Eye This Week

The severe downturn in the economy brought on by the Coronavirus/Covid-19 quarantine continues to manifest in dour corporate earnings reports and the bankruptcy of several well-known retailers. However, small signs of anecdotal evidence and high-frequency data have recently emerged to suggest some economic improvement may be beginning. Occupancy at hotels in China has increased from the worst levels of the crisis and reached an average of 50% at the 150 hotels operated by Hilton during the recent May Day holiday. Marriott reported April occupancy that averaged 25% across 340 properties, a significant improvement from 10% in February. Fast food sales, which cratered in March as consumers ate either packaged foods or cooked at home, saw declines slow during the month of April at restaurants such as Wendy's, Wingstop, and Dunkin' Brands. Within the automotive industry, the retail unit sales of new and used cars fell 19% during the final 10 days of April in comparison to a 52% drop during the first 10 days of the month. This may represent a gradual, albeit important reversal of the precipitous slide in vehicle sales caused by job losses and dealership closings. In addition, a few auto plants within the mid-West are re-opening. While it is premature to label any of these a recovery, they offer a glimmer of optimism.

Economy

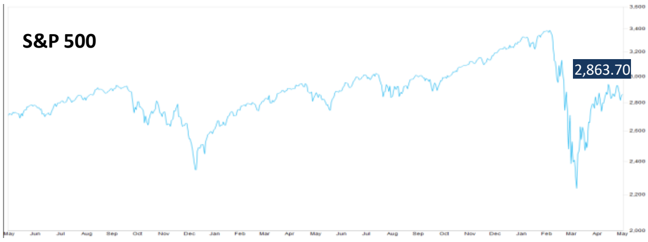
The economic headliner this week was the retail sales report, which was released on Friday. Retail sales plunged a record 16.4% in April, a bit worse than expectations. Once again non-store retail sales were the highlight surging by 8.4%. The all-important control category, which excludes food service, autos, gas and building materials declined by 15.3%. Also on Friday industrial production figures tumbled 11.2% in April while manufacturing output slumped 13.7%. Overall capacity utilization is now at 64.9%. Earlier in the week the consumer price index posted its largest monthly drop since December 2008 falling by 0.8% in April. Energy prices dropped by 10.1% and food prices gained 1.2%. The "core" CPI decreased by 0.4% and is now up 1.4% year-over-year. On Wednesday the producer price index came in below expectations with a decline of 1.3% in April. The "core" PPI dropped by 0.3%, but year-over-year this metric is up 0.6%. Finally on Friday the JOLTS report (job openings and labor turnover survey) showed the total number of separations increasing by 8.9 million to 14.5 million in March. Total job openings decreased to 6.2 million.

Fixed Income/Credit Market

The Federal Reserve's accommodative policies have provided a backstop for fixed income assets thus restoring investor confidence and simultaneously putting a lid on interest rate volatility. Month-to-date (MTD), the 10-year U.S. Treasury Note has traded in a narrow range of 7.8 basis points (bps) while averaging approximately 0.64%. Looking at U.S. ETF fund flows by asset class indicates investors began hedging against inflation, shortening duration, and adding slightly more risk to their portfolios. In May, inflation protected securities and municipal bond ETFs have had the biggest net fund flows increasing their market caps 1.9% and 1.6%, respectively. From a duration perspective, short-term ETFs increased their market cap by 1.6% while long-term funds saw net outflows, lowering the market cap by 0.8%. Confidence in the Fed's support coupled with a reach for incremental yield precipitated a market cap increase of 1.4% in high yield funds. However, investors remain wary of exposing themselves to too much risk as evidenced by the net outflow of funds from bank loans which decreased the sector's market cap by 2.4%.

Equities

U.S. equities traded lower this week as the poor economic and health realities facing the nation weighed on investor sentiment. Markets experienced bouts of volatility, with Tuesday and Wednesday seeing the week's biggest drops. For Monday, the Dow realized a loss of -0.45%, while the S&P 500 and Nasdaq Composite posted slight gains of 0.01% and 0.78%, respectively. Furthermore, on Wednesday, while initially on track for another day of losses, the market was able to rebound with all major indices posting gains thanks to a rally in the banking and oil sectors. The market closed up 0.39% on Friday, a day similar to Wednesday. With over 36 million people filing unemployment applications, record drops in consumer monthly spending, and general uncertainty about how and when the economy will reopen, it appears the data has finally caught up with the surge stocks had been riding since their March bottom. Tensions between the U.S. and China spiked throughout the week too, as President Trump mentioned he was "looking at" Chinese companies which trade on U.S. exchanges but do not follow U.S. accounting rules. A block on semi-conductors designated to Huawei Technologies was also implemented. These developments ultimately left investors with the difficult task of trying to get some sense of direction as to what the immediate future may entail. For the week, the S&P 500 finished down -2.26%.



Our View

The economic indicators released this week continue to reflect the dramatic impact the economic lockdown caused by Covid-19 virus has inflicted on the economy. The record drop in retail sales was especially awful, but very predictable given that more than 30 million people have filed for unemployment assistance since February and the massive disruption to retailers caused by forced store closings. The statistics are suggesting that this economic contraction will be extremely severe, perhaps matching the recessions seen in the 1920's and 1930's. Federal Reserve Chairman Jerome Powell spoke this week (virtually) at the Peterson Institute taking a somber tone regarding the economy and making the case for more fiscal support. He suggests that now is not the time for deficit hawks to allow debt concerns to restrict fiscal stimulus as long-term structural economic damage can be minimized by more federal spending. Although we are concerned about the implications of government deficits and effects of debt in the long run, in our view, it seems prudent to do whatever is necessary to avoid the tail risk associated with a prolonged recession. Additional support, especially if it is well targeted, will also lessen the duration of the downturn. The length of the recession is an important factor because there is a strong correlation between the length of the recession and the required amount of time needed for the economy to fully recovery. Research suggests that actual depth of the contraction does not have a large impact on the time to recovery. It makes sense when you consider the longer the recession, the greater the impact on supply chains, job skills, cash cycles, etc. The goal for fiscal and monetary authorities should be to make sure this is an average recession from a duration perspective. This would limit the corrosive structural financial damage caused by a protracted economic downturn and lessen the human cost as well.

COMING UP NEXT WEEK		Consensus	Prior
05/19 Housing Starts SAAR	(Apr)	930.0K	1,216K
05/21 Markit PMI Manufacturing SA (Prelim)	(May)	36.4	36.1
05/21 Markit PMI Services SA (Prelim.)	(May)	32.5	26.7
05/21 Existing Home Sales SAAR	(Apr)	4,300K	5,270K
05/21 Leading Indicators SA M/M	(Apr)	-5.8%	-6.7%