PEAPACK PRIVATE
Wealth Management

The Weekly
Economic & Market Recap

May 21, 2021

5/21/2021		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	34,207.84	-174.29	-0.51	1.75	11.77	39.77
S&P 500	4,155.86	-17.99	-0.43	1.38	10.64	40.95
NASDAQ	13,470.99	41.01	0.31	0.69	4.52	45.09
S&P MidCap 400	2,689.84	-32.05	-1.18	1.24	16.61	58.77

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.15	Euro/Dollar	1.22	0.45
5-Year	0.82	Dollar/Yen	108.97	-0.43
10-Year	1.62	GBP/Dollar	1.42	0.52
30-Year	2.32	Dollar/Cad	1.21	-0.41

Source: Bloomberg/FactSet

What Caught Our Eye This Week

President Biden's healthcare plan is being referred to as Affordable Care Act 2.0. The President's plan seeks to add a Medicare-like public option where consumers can choose their health care provider, it will cap spending at a maximum of 8.5% of an insured's income (this compares to almost 10% under the current Act) and reduce the cost of prescription drugs. Some Congressional Democrats also want the President to lower the Medicare eligibility age to 60 from 65, a proposal he made during his campaign. That idea faces strong opposition and is most detrimental to the hospital sector. Hospital groups say that expanding Medicare eligibility would sharply reduce their reimbursements for providing care. In addition, doctors and administrators envision a reduced labor force since more people would retire early. Lowering Medicare eligibility also puts a larger burden on Medicare's trust funds which are already facing insolvency in coming years. These are only a few of the potential positive and negative impacts related to the proposed healthcare plan, but the most important outcome of any plan will be the extent to which it can reduce health care costs for individual consumers.

Economy

This week the economic data centered around housing statistics with the release of housing starts and existing home sales. On Tuesday, monthly housing starts posted a 9.5% drop to 1.569 million units at an annual rate. These figures were well below expectations, but over the past twelve months housing starts have surged 67.3%. Multi-family starts rose by 0.8% and are up 90.5% year-over-year. Single family starts declined by 13.4%, but over the past twelve months these figures are up 58.7%. Thursday brought us weekly jobless claims which dropped 34,000 to 444,000 during the week ending May 15th. This is a new low since the surge reported early in the pandemic and the four-week moving average is now at 505,000. Finally, on Friday, existing home sales data disappointed, declining 2.7% to 5.85 million units at an annual rate. Existing home sales have now dropped for three straight months, but over the past twelve months these sales have soared 37.5%. The median price of an existing home sold is now at $342,000, an increase of 19.1% year-over-year.

Fixed Income/Credit Market

U.S. Treasury yields grinded sideways this week with the benchmark 10-year tenor down roughly ½ a basis point (bp) to roughly 1.62%. Utilizing U.S. ETF fund flows and analyzing the 10-year TIPS (Treasury Inflation Protected Securities) auction result makes it difficult to ascertain whether or not inflation concerns have abated. Inflation protected ETFs had $845.8 million of net inflows during the week which increased the market cap 1.1%. The market cap increase was third only to bank loans and government bonds which increased their market caps 1.4% and 1.3%, respectively. Additionally, the 10-year TIPS auction was considered fair with the bid-to-cover ratio of 2.5x versus an average of 2.52x – not a strong sign that inflation concerns have necessarily evaporated. However, the stable range of U.S. Treasury yields during the week could indicate that market participants have already priced in short-term inflation trends. Buyer sentiment based on yield curve positioning makes drawing a conclusion even tougher. Investors added a market cap increase of 1.7% in long-term ETFs vs 1% for short-term assets but on a nominal basis, net flows increased $744.9MM (long-term) vs roughly $2.2B (short-term).

Equities

Domestic equities posted modest declines during a week where market discussion was largely dominated by inflation concerns. Most of the commentary has focused on supply chain constraints, input cost pressures, heightened fears that "transitory" inflation may persist longer than expected, and whether the Federal Reserve will have to change its dovish monetary policies in the near-term. Stocks sold off for three consecutive days to start the week but managed to regain most of their losses due to a strong rebound on Thursday. On Friday, President Biden's Press Secretary Psaki confirmed Republican legislators are meeting with White House officials to review a new Biden proposal on infrastructure which now totals $1.7 trillion – down from the original $2.25 trillion. In other news, AT&T announced a $43 billion deal to merge its WarnerMedia division with Discovery, and cryptocurrencies experienced wild price fluctuations due to concerns over increased regulatory scrutiny. Real estate was the top performing sector this week gaining 0.91%, while energy lagged declining 2.84%.

Our View

Studies have shown that there is a clear inverse relationship between the level of interest rates and equity price-to-earnings multiples. When interest rates are low, equity valuations tend to be high as the limited fixed income opportunity set pushes investors further out on the risk/return spectrum. Interest rates are largely driven by the supply and demand for credit, which is further influenced by growth and inflation expectations. Investors are keenly focused on rising inflation after the most recent annualized headline consumer price index data showed the largest increase since late 2008. Supply chain bottlenecks, accommodative fiscal and monetary policy, along with the reopening of the economy have been the main culprits of the recent upward trend in prices. However, for inflation to be more durable and long lasting, it needs to find its way into the labor market. Unfortunately, pandemic disruptions have made labor market data more difficult to interpret due to volatile composition and base effects. Looking at traditional indicators of labor force slack may prove misleading at the current time. A more helpful way to look at labor market slack is to examine wage growth for individuals who have been employed over a 12-month period. Moreover, the Atlanta Fed Wage Growth Tracker utilizes the monthly BLS current population survey to monitor the direction of wages for people who have been employed over the last year. The Atlanta Fed's Wage Growth Tracker shows a bifurcated labor market with wage pressures decelerating for the highest paid earners while workers at the lower end of the pay spectrum have seen more robust earnings growth. The previously mentioned statistics should be well received by the Fed, who is looking for a more inclusive labor market recovery before it signals that it will alter the stance of monetary policy. But the supply of labor is being temporarily impacted by numerous factors that may be pushing wages up in the short-term. Therefore, given the complexity of the inflation situation at the current juncture, a prudent way for investors to move forward is through proper diversification and staying within the guidelines of their investment policy objectives.

COMING UP NEXT WEEK		Consensus	Prior
05/25 Consumer Confidence	(May)	120.0	121.7
05/25 New Home Sales SAAR	(Apr)	955.0K	1,021K
05/27 Durable Orders SA M/M (Preliminary)	(Apr)	0.75%	1.0%
05/27 GDP SAAR Q/Q (Second Preliminary)	(Q1)	6.4%	6.4%
05/28 Personal Consumption Expenditure SA M/M	(Apr)	0.50%	4.2%
05/28 Personal Income SA M/M	(Apr)	-15.9%	21.1%
05/28 Michigan Sentiment NSA (Final)	(May)	82.9	82.8

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