December 4, 2020

12/4/2020		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	30,218.26	307.89	1.03	2.05	5.89	9.87
S&P 500	3,699.12	60.77	1.67	1.64	14.50	19.59
NASDAQ	12,464.23	258.38	2.12	0.79	38.91	46.28
S&P MidCap 400	2,244.94	39.02	1.77	1.49	8.82	13.16

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.15	Euro/Dollar	1.21	1.62
5-Year	0.42	Dollar/Yen	104.19	0.18
10-Year	0.97	GBP/Dollar	1.35	0.96
30-Year	1.74	Dollar/Cad	1.28	-1.32

Source: Bloomberg/FactSet

What Caught Our Eye This Week

In June, market research firm Packaged Facts issued an update to their 2020–2021 U.S. Pet Market Outlook and forecast a 17% decline in retail sales of pet products and services for 2020 in comparison to a pre-pandemic prediction of 5% growth. While non-medical pet services (pet-sitting, pet-walking, boarding) have declined, sales of pet products (food, toys, and accessories) have been surprisingly strong. Over the last 30 years, pet ownership has gone from 56% to 68% of all households and now almost 85 million households have a pet. Much of this growth can be attributed to millennial and generation Z consumers. These cohorts have embraced the pet-owning lifestyle to a much greater extent than previous generations. While baby boomers account for 32% of pets owned, the younger two generations now account for 62% of pet ownership. The American Pet Products Association estimates that pet owners will spend $99 billion annually on their pets. Chewy, the online pet supply company, reported recent quarter sales up 47% year-over-year to $1.7 billion. Industry researchers also note the premiumization of pet products has been a boon for neighborhood specialty pet stores where consumers seek specialty foods, treats and advice. The growth and dynamic nature of the pet industry make it worth investors' close attention.

Economy

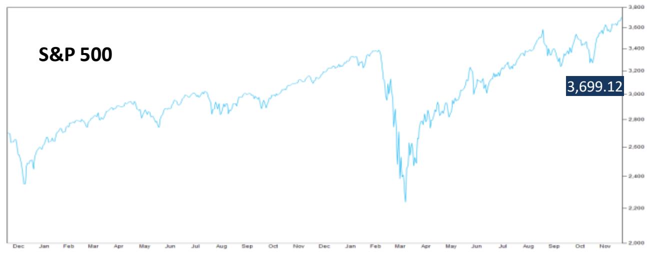
The economic headliner this week was the nonfarm payroll report, which was released on Friday. This report showed payrolls increasing by 245,000 in November, and the unemployment rate declining from 6.9% to 6.7%. The broad U-6 measure of unemployment also declined, dropping from 12.1% to 12.0%. The labor force participation rate decreased from 61.7% to 61.5%. Examining the different employment sectors, healthcare gained 46,000 jobs, and construction and manufacturing added 27,000 each. The payroll diffusion index, which measures the number of industries that increased employment last month dropped from 68.6 in October to 58.1 in November. Overall, nonfarm payrolls have increased for seven consecutive months. In other news this week the ISM manufacturing survey decreased from 59.3 to 57.5 in November. The new orders index dropped to 65.1 from 67.9 and overall, 16 of 18 industries reported expansion. Finally, on Thursday, the ISM nonmanufacturing survey posted a slight decline, dropping from 56.6 to 55.9 in November. On a positive note, 14 of 18 sectors reported growth.

Fixed Income/Credit Market

Fixed income performance for the month of November was positive for all the sectors that we follow. The top performing sectors were preferred equity, emerging market debt (non-currency hedged), and long-term higher quality bonds which returned 4.6%, 4.2%, and 4.04%, respectively. With interest rates across the U.S. Treasury curve lower anywhere from 1 basis point (bp) to 9.3 bps, investors reaching for yield drove demand into riskier sectors and longer-duration bonds while the weakening of the U.S. dollar supported overseas debt. It is worth mentioning 0-5 year high yield bonds also put in a solid month and returned 3.85%. Broader measures of high yield performance were even more pronounced with returns of roughly 5% and 4% for the Bloomberg Barclays Global High Yield and U.S. High Yield indices, respectively. The underperformers were short-term Treasuries, mortgage-backed securities (MBS), and short-term high-quality bonds which returned 0.03%, 0.11%, and 0.23%, respectively. While the Fed is sapping up MBS supply which in turn props up prices, the imbedded call option in mortgage bonds only allows those prices to rise so far.

Equities

Equities had another strong week of performance as growing momentum in Washington towards delivering a new coronavirus aid package bolstered investors' expectations that the economy will be able to weather the continued spread of the pandemic. This, combined with the optimism of the forthcoming vaccine rollout, led the Dow to post a weekly gain of 1.03% and close at a new record high of 30,218 – its second ever close above 30,000. Similarly, the S&P 500 finished the week up 1.67%, while the Nasdaq rose 2.12% on the week. Value outperformed growth again, finishing +1.83% to +1.60%, respectively, as the transition to more cyclical names and sectors continues. Energy, which has seen a 35.6% change on a one-month basis, was the week's top performing sector at +4.47%. In the face of disappointing economic data released Friday however, some have noted caution with extended valuations and the overbought conditions the market is currently experiencing, given there is only so much recovery that can be realized before the economy is fully reopened.



Our View

The U.S. economy is beginning to show signs of fragility as the recent surge of Covid-19 cases causes some states reimpose certain restrictions in order to attempt to mitigate the spread of the disease. High frequency data shows that while consumer credit and debit card transactions are on par with last year, the number of U.S. seated diners, as well as travel and navigation app usage, are trending down over the last month and are roughly 50% lower on an annual basis. With that being said, it was not surprising that some market participants were dismayed when it was announced that the Treasury Department would terminate some of the Fed's liquidity facilities by the end of year and take back the massive amount of capital that the Fed had received. The leaders at the Fed have been very vocal about the need for additional fiscal and monetary stimulus and the previously mentioned action removes key capital market backstops. Luckily, the market's reaction to the early removal of the credit facilities has been muted thus far, which shows how much market confidence has been restored since the dislocations experienced back in March. It is also important to note that only a small fraction of the credit facilities were utilized as the Fed was able to restore proper market stability by the sheer announcement of the programs back in early spring. Credit spreads are currently very tight from a historic perspective and the need for additional monetary policy stimulus may not be apparent right now, however, the Fed should have all the necessary tools available to respond to potential hardships moving forward. With Janet Yellen selected as the new Treasury Secretary (it is probable that she will be confirmed by the Senate), the relationship between the Treasury Department and Fed is projected to be quite strong moving forward. Yellen's incredible experience at the Fed coupled with her extraordinary communication skills should comfort market participants to a degree and assist greatly in the rebuilding of the economy.

COMING UP NEXT WEEK		Consensus	Prior
12/10 CPI ex-Food & Energy SA M/M	(Nov)	0.20%	0.0%
12/10 CPI SA M/M	(Nov)	0.10%	0.0%
12/10 CPI NSA Y/Y	(Nov)	1.1%	1.2%
12/11 PPI ex-Food & Energy SA M/M	(Nov)	0.20%	0.10%
12/11 PPI SA M/M	(Nov)	0.10%	0.30%
12/11 PPI NSA Y/Y	(Nov)	0.70%	0.51%
12/11 Michigan Sentiment NSA (Preliminary)	(Dec)	77.0	76.9

For more information about our solutions: http://peapackprivate.com