PEAPACK PRIVATE
Wealth Management

The Weekly
Economic & Market Recap

October 8, 2021

10/8/2021		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	34,746.25	419.79	1.22	1.77	13.53	22.24
S&P 500	4,391.34	34.30	0.79	1.35	16.91	27.40
NASDAQ	14,579.54	12.84	0.09	0.66	13.12	27.66
S&P MidCap 400	2,690.22	6.58	0.25	1.38	16.63	35.08

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.31	Euro/Dollar	1.16	-0.19
5-Year	1.05	Dollar/Yen	112.04	0.97
10-Year	1.60	GBP/Dollar	1.36	0.73
30-Year	2.16	Dollar/Cad	1.25	-1.71

Source: Bloomberg/FactSet

What Caught Our Eye This Week

Over the past several weeks there has been a deluge of new vaccine developments which ultimately should put us in a better public health position and expedite a more robust economy. Pfizer/BioNTech continues to be the only Covid-19 vaccine in the United States that is fully authorized for those 16 years or older. Pfizer/BioNTech has only emergency use authorization (EUA) for its vaccine for those 12-15 years of age. The Moderna and Johnson & Johnson (JNJ) vaccines have been approved under EUA, however, both companies have submitted applications for full approval which should be granted soon. On Thursday, Pfizer/BioNTech also applied for EUA for its vaccine to be used in children 5-11 years of age. This request should be approved within a few weeks. Furthermore, the Pfizer/BioNTech application for those 6 months to 4 years of age will most likely get authorization by the end of 2021 or early 2022. In September, Pfizer/BioNTech became the only vaccine to be approved for booster shots in the United States for those 65 years or older as well as those deemed in high-risk categories to include front-line healthcare workers and teachers. The approval for Moderna and JNJ boosters will most likely become available within the next week or two. Last Friday, Merck released trial data for an antiviral oral medication which has shown to reduce hospitalization or death by 50% for high-risk patients. Currently, antibody treatments are administered intravenously. Merck's pill could be an excellent alternative.

Economy

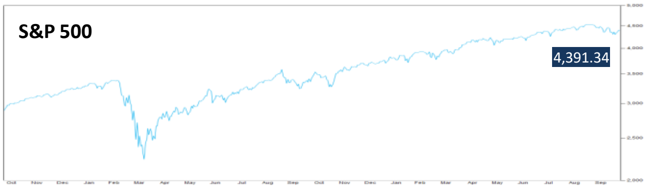
The economic headliner this week was the nonfarm payroll report, which was released on Friday. This report showed payrolls increasing 194,000 in September and the unemployment rate falling from 5.2% to 4.8%. There were also upward revisions to employment growth from earlier months totaling 169,000. The number of unemployed persons declined 710,000 to 7.7 million. Prior to Covid the unemployment rate was 3.5% and the number of unemployed persons was 5.7 million. The broad U-6 measure of unemployment dropped from 8.8% to 8.5% and the labor force participation rate was little changed at 61.6%. Examining the different employment sectors, leisure and hospitality added only 74,000 jobs, manufacturing gained 26,000 jobs, and education lost 180,000 jobs. Overall, nonfarm payrolls have risen 17.4 million since April 2020, and this year monthly job growth has averaged 561,000. In other news this week the ISM services survey rose from 61.7 in August to 61.9 in September, exceeding consensus expectations. Also, weekly jobless claims declined from 364,000 to 326,000 during the week ending October 2nd.

Fixed Income/Credit Market

Fixed income performance in September was poor for the majority of sectors that we follow. Material increases in interest rates around the globe drove the underperformance. In the U.S., Treasury Note and Bond yields increased anywhere from 6.7 basis points (bps) to as much as 20.1 bps at the 7-year tenor. The worst performing sectors were emerging market debt (non-currency hedged), high-quality long-term bonds, and international Treasuries which returned -2.64%, -2.53%, and -2.37%, respectively. Senior loans were the only sector that turned in a positive total return for the month at 0.11% – not surprising given the floating rate nature of the sector. It is interesting to note that even though the yields further out on the U.S. Treasury curve increased meaningfully during the month, investment grade credit spreads actually compressed. The U.S. Dollar Investment Grade All Sectors option adjusted spread compressed 7 bps over the course of September to end the month at 84 bps (roughly 42 bps below its 5-year average).

Equities

Volatility returned to the equity market this week as the broader economic recovery continues to show signs of uncertainty. Poor economic data, gridlock in Washington, rising global energy prices, and supply chain disruptions were some of the factors that led to the market swings. The S&P 500 moved more than 1% in three out of the five trading sessions this week, but despite the volatility, major indices did ultimately finish with modest gains. The S&P 500 rose 0.79%, while the Dow and Nasdaq climbed 1.22% and 0.09%, respectively. Investors, taking advantage of the recent slide, stepped in with a "buy the dip" mentality following positive debt ceiling developments which led to the modest rebound. Third-quarter earnings expectations have been positive, however, according to FactSet, 71% of companies within the S&P 500 have cited supply chain disruptions to have a negative impact on their earnings. Sector wise, energy and financials were the week's leaders rising 5.02% and 2.35%, respectively. Furthermore, value outperformed its growth counterpart 1.26% to 0.33%.



Our View

The restart of the economy has been quite powerful and economic activity has broadened as the year has progressed. However, the rapid restart of the economy has not been without challenges and issues. There is a clear cost to be paid for locking down an economy as large as the United States. Apart from approximately $5 trillion in additional federal government debt incurred since the pandemic began, significant damage has been done to small businesses and supply chains that are now manifesting themselves. Supply chains can be complex and require the interaction of numerous properly-functioning relationships. Ordinarily, when supply chains operate well, we remain unaware of all the complicated and integrated interconnections. Goods and services are available where and when we need them. Additionally, the price mechanism ensures that products are exchanged at a reasonable price for both consumers and producers. Pricing provides information to market participants allowing supply and demand to remain relatively in balance. Government-mandated lockdowns dramatically impacted the supply side of the equation causing both the price mechanism and economic interdependencies to be disrupted. The short-term mismatch of supply and demand has been further exacerbated due to the demand-side stimulus that has been created through large deficit spending. We see the effect in several industries such as energy, home appliances, and automobiles. Distribution and logistics systems have been also thrown into chaos. Transportation costs have been driven significantly higher as ships in the ports of New York and Los Angles wait for weeks to get unloaded. We also see this issue in labor markets. There is a growing body of anecdotal evidence that companies are being forced to pay higher wages for labor. Some of these increased costs will be passed along to consumers via higher price inflation, and some of the incremental costs will be borne by producers in lower margins. We will begin to get a sense of how impactful the costs of lockdowns have become when companies begin reporting third-quarter earnings in a few weeks. Third-quarter earnings estimates for the S&P 500 have stagnated and have more recently drifted slightly lower. Positive earnings revisions, which have been a potent driver of equity valuations this year, may be losing steam.

COMING UP NEXT WEEK		Consensus	Prior
10/13 CPI NSA Y/Y	(Sep)	5.3%	5.3%
10/14 PPI ex-Food & Energy SA M/M	(Sep)	0.45%	0.60%
10/14 PPI SA M/M	(Sep)	0.50%	0.70%
10/15 Retail Sales SA M/M	(Sep)	-0.10%	0.70%
10/15 Michigan Sentiment NSA (Preliminary)	(Oct)	74.8	72.8

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