Peapack Private
Wealth Management

The Weekly
Economic & Market Recap

May 7, 2021

5/4/2021		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	34,777.76	902.91	2.67	1.76	13.63	45.66
S&P 500	4,232.60	51.43	1.23	1.38	12.69	46.90
NASDAQ	13,752.24	-210.44	-1.51	0.66	6.70	53.15
S&P MidCap 400	2,770.27	45.12	1.66	1.22	20.10	71.00

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.15	Euro/Dollar	1.21	0.86
5-Year	0.77	Dollar/Yen	108.57	-0.68
10-Year	1.58	GBP/Dollar	1.40	0.96
30-Year	2.28	Dollar/Cad	1.22	-1.21

Source: Bloomberg/FactSet

What Caught Our Eye This Week

Meat products have come under increased scrutiny from consumers in recent years due to their impact on health and sustainability. Seventy percent of U.S. consumers have now tried plant-based alternatives, and the number of companies working on meat alternatives in the U.S. continues to grow. Just this week, Tyson Foods announced it will re-enter the plant-based protein market with 3 new offerings, right on time for the summer grilling season. Tyson, along with Kellogg's MorningStar Farms brand and Kraft's Boca Foods, competes with newer companies Beyond Meat and Impossible Foods whose sole focus is plant-based protein. Sales of plant-based meat grew 45% in 2020 to $1.4 billion. Interestingly, meat consumption in the U.S. is also on the rise. Overall, retail meat sales surged over 18% in 2020 to $75.6 billion. The larger, established meat companies maintain they bring scale and decades of food business knowledge to the arena. These companies are vying for market share of an industry forecast to grow to $450 billion and make up a quarter of the $1.8 trillion meat market by 2040, according to consulting firm Kearney.

Economy

The economic headliner this week was the nonfarm payroll report, which was released on Friday. This report showed payrolls increasing by 266,000 in April and the unemployment rate ticking up to 6.1%. This jobs figure was significantly below the consensus of approximately one million. There were also negative revisions for the prior two months totaling 78,000. Nonfarm payrolls are still down 8.2 million from the pre-pandemic levels of February 2020. The broad U-6 measure of unemployment edged down to 10.4% and the labor force participation rate rose to 61.7%. Examining the different employment sectors, leisure and hospitality added 331,000 jobs, manufacturing lost 18,000 jobs and retail ceded 15,000 jobs. Average hourly earnings increased 21 cents to $30.17. In other news this week, the ISM manufacturing survey decreased from 64.7 in March to 60.7 in April missing expectations. The new orders index also declined, dropping from 68 to 64.3. Finally, on Thursday, weekly jobless claims declined 92,000 to 498,000 during the week ending May 1st. This level is a new low since the Covid-19 pandemic began more than a year ago.

Fixed Income/Credit Market

The consensus for Friday's nonfarm payroll report was for approximately one million workers being added to the U.S. labor force with some estimates reaching as high as two million new jobs. Regardless of where expectations fell within that range, the nonfarm payroll report print of 266,000 was a major disappointment. U.S. Treasury Note yields ended the week lower anywhere from -1.6 to -7.4 basis points (bps). The benchmark 10-year Treasury yield closed the week down 4.8 basis points to 1.58%. The poor U.S. jobs data will now have fixed income traders pivoting, particularly if inflation pressures that have been building up over recent months begin to recede. The 10-year U.S. breakeven rate has increased 26% year-to-date (YTD) to roughly 2.51%. A lesser known forward gauge of future inflation, the 5-year 5-year inflation swap rate is at 2.49%, which is where the metric resided in 2018.

Equities

Domestic equities posted solid gains this week, and the S&P 500 closed at a new all-time high on Friday. On Tuesday, stocks sold off due to a significant rotation out of growth and momentum companies. The downdraft was likely triggered by U.S. Treasury Secretary Janet Yellen's comments that interest rates may have to rise to keep the economy from overheating. Other frequently cited concerns centered around supply chain constraints related to the semiconductor shortage and input cost inflation. The most closely watched event of the week was Friday's April nonfarm payroll report which came in significantly below estimates. Although this indicated a slowing recovery in the labor market, the news made investors believe dovish monetary policies will stay in place for longer, which resulted in stocks rallying to record levels. First quarter earnings season is almost complete with 88% of companies in the S&P 500 reporting results, according to FactSet. Out of those companies, 86% have beaten consensus earnings estimates which would mark the highest percentage since FactSet began tracking the metric in 2008.

Our View

In aggregate, U.S. consumption is surging, and consumer confidence is robust. High frequency economic data indicates that the 7-day moving average of consumer debit/credit card transactions are up 11% compared to the same period in 2019. Moreover, consumer confidence according to the Conference Board reached 121.7 in April, which marked its highest figure since February of 2020. Overseas, the Bank of England announced this week that it would reduce its pace of bond buying moving forward as the economic recovery gathers strength due to vaccination progress and the removal of pandemic restrictions. Some market participants have been speculating that the Fed could announce plans to taper asset purchases as early as this summer if further progress is made on its dual mandates of price stability and maximum employment. Even though the trailing 12-month average nonfarm employment gain has been over 1.1 million jobs per month, the most recent labor report for April was disappointing and came in well below expectations. The U.S. labor market recovery is progressing on multiple paths as certain industries and segments of society are unfortunately being left behind. The Fed has indicated that it expects a "broad and inclusive" recovery in the labor market before monetary policy is altered. Furthermore, millions of potential workers have left the labor force and the labor force participation rate is at its lowest level since the mid 1970's. Given the current state of the labor market, there is a low probability that the Fed will alter its monetary policy stance in the near term. However, the longer the Fed keeps monetary policy extraordinarily accommodative, the risk of potential financial imbalances increases. The Fed recently released its semi-annual financial stability report and noted "a rising appetite for risk across a variety of asset markets is stretching valuations and creating vulnerabilities in the U.S. financial system." However, with a well-capitalized banking system, manageable leverage in the financial system, strong consumer balance sheets and rapidly growing corporate earnings, the vulnerabilities in the U.S. financial system seem controllable at this point, but requires close monitoring moving forward.

COMING UP NEXT WEEK		Consensus	Prior
05/11 JOLTS Job Openings	(Mar)	7,500K	7,367K
05/12 CPI NSA Y/Y	(Apr)	3.6%	2.6%
05/13 PPI NSA Y/Y	(Apr)	5.8%%	4.2%
05/14 Retail Sales Y/Y	(Apr)	-	27.7%
05/14 Industrial Production SA M/M	(Apr)	1.5%	1.4%
05/14 Michigan Sentiment NSA (Preliminary)	(May)	90.0	88.3