



3/12/2021		Wk Net	Wk % Change	Div Yield	YTD % Change	12 Mos % Change
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	32,778.64	1282.34	4.07	1.85	7.10	54.61
S&P 500	3,943.34	101.40	2.64	1.47	4.99	58.96
NASDAQ	13,319.86	399.72	3.09	0.70	3.35	84.95
S&P MidCap 400	2,646.34	133.42	5.31	1.21	14.73	85.48
TREASURIES	Yield					
2-Year	0.15					
5-Year	0.84					
10-Year	1.63					
30-Year	2.38					
		FOREX	Price	Wk %Change		
		Euro/Dollar	1.19	0.24		
		Dollar/Yen	108.99	0.67		
		GBP/Dollar	1.39	0.54		
		Dollar/Cad	1.25	-1.51		

Source: Bloomberg/FactSet

What Caught Our Eye This Week

Steel underpins everything from automobiles to infrastructure, from making machines to constructing high-rise buildings. Since late 2019, there has been a lot of merger activity within the steel industry. Companies have been buying other businesses that are part of their supply chain (vertical integration). For example, in 2020 Cleveland-Cliffs, an iron ore mining company, and a major supplier to the steel industry, purchased both AK Steel and ArcelorMittal USA, thereby absorbing a significant piece of the supply chain it previously fed. Even with these types of transactions, U.S. companies are still not the biggest producers of steel globally. China holds the top spot, followed by India, Japan and then the U.S. After increasing 3.4% in 2019, steel output declined in 2020. Beyond the pandemic the industry has ongoing concerns about excess capacity and tariffs. The CEO of American Iron and Steel cited the tariffs as helping boost domestic capacity utilization rates, growing U.S. investment and lowering imports. Furthermore, a rebounding economy and increases in infrastructure spending will boost consumption of steel and could drive demand 20% in 2021 according to analysts.

Economy

This week the economic data centered around inflation statistics with the release of the consumer price index (CPI) and the producer price index (PPI). On Wednesday, the CPI came in softer than expected with an increase of 0.4% in February. The "core" CPI posted a .10% rise and is now up 1.3% year-over-year. The headline CPI is now up 1.7% over the past twelve months. Energy prices led the way rising 3.9% while airfares dropped 5.1%. Airfares are now down 25% year-over-year. The PPI was released on Friday and posted a 0.5% advance in February. The "core" PPI increased 0.2% and is now up 2.5% year-over-year. Energy prices heavily influenced the headline figure, surging 6.0%. On Thursday, weekly jobless claims dropped from 754,000 to 712,000 during the week ending March 6th. This is just a touch above the lowest weekly reading since the pandemic-related surge in filings in 2020. Finally, on Friday the University of Michigan consumer sentiment index beat expectations advancing from 76.8 to 83.0. This is the highest level reported going back to March 2020.

Fixed Income/Credit Market

The steepening of the U.S. Treasury yield curve over the past month has had an interesting impact on U.S. ETF fund flows. Fund flows by asset class saw bank loans and inflation protected bond funds increase their market caps 3.7% and 3%, respectively. Interest on bank loans is typically floating rate, therefore, an increase in Treasury yields is a major benefit despite the riskier nature of the sector. Additionally, during the one-month period 5-year and 10-year U.S. breakeven rates increased a respective 9.8% and 4.3% which easily explains the market cap increase in inflation protected bond funds. Emerging market debt, corporate bonds, and preferred equity experienced net outflows during the same timeframe. Emerging market debt had a market cap decrease of 4.9% which is not surprising since the sector is traditionally viewed as higher risk, similarly, preferred equity (the position on a company's capital structure) lost 1.6% of its market cap. Corporate bonds lost 0.6% of their market cap due to concerns of higher debt servicing costs and its impact on company balance sheets.

Equities

U.S. domestic equities posted a strong week of performance as all major indices notched weekly gains north of 2%. The Dow, Nasdaq, and S&P 500 finished the week up 4.07%, 3.09%, and 2.64%, respectively, despite mixed results on Friday. The Dow and S&P 500 closed Friday at new record highs. The week's rise can be attributed to an optimistic outlook for an accelerated economic reopening. On Thursday, President Biden signed into law the newest fiscal stimulus package, which is valued at \$1.9 trillion. He also said every adult in the U.S. will be able to receive a vaccine by May 1. These efforts are expected to spur growth and have led to an overall sense of enthusiasm. The Russell 1000 Value index outperformed its Growth counterpart 3.22% to 2.47%, as the rotation into cyclical names continues. Growth stocks did experience a strong rebound this week, however, thanks to a rally in tech names. Sector wise, consumer discretionary led the pack with a 5.47% gain in a week which all areas finished in the green.



Our View

Interest rates have risen across the globe since the beginning of the year, but the rapid bond market selloff has been especially painful for U.S. bond investors. Equity investors have been insulated from the dramatic and somewhat surprising increase in rates. However, price volatility has noticeably picked up over the last month as investor sentiment vacillates between rate concerns and economic optimism. Despite higher rates, no major central bank has materially adjusted its quantitative easing program, and universally central banks remain steadfast in their commitment to maintaining loose monetary policy. Positioning by the Federal Reserve and other central banks has helped equity markets shrug off higher rates so far. This week, the ECB did decide to significantly increase the pace of purchases over the next quarter to blunt the effects of higher yields in Europe. Unlike the response from financial markets last week when Fed Chair Powell indicated a patient stance toward the rate increase, financial markets reacted favorably to the ECB's announcement. The S&P 500 made a new intraday high on the day of the ECB's release. The equity market has also been eagerly anticipating President Biden signing the \$1.9 trillion coronavirus stimulus package and its likely significant effect on economic growth. Using a reasonable multiplier and an estimation that \$1.1 trillion of the stimulus package will be spent this year, we expect that the new fiscal stimulus program will account for at least an additional 3% of U.S. GDP growth by itself. Many economists are now expecting GDP growth of between 6 to 8% for 2021 due to the recovery in consumption spending. The economy is being supported by artificially constrained interest rates (monetary policy) and a whopping level of fiscal stimulus. The extremely positive economic backdrop should allow earnings to flourish over the next few years. Consensus earnings growth is 24.9% for 2021 and 15.2% for 2022 according to I/B/E/S Refinitiv. Earnings estimates for 2022 are approaching \$200 on the S&P 500, so the forward multiple on next year's earnings is roughly 20 times. Much of the positive economy is already embedded in near term equity prices. As rates continue to adjust, investors should expect money to flow toward more cyclically oriented areas of the market that offer more attractive return opportunities.

COMING UP NEXT WEEK		Consensus	Prior
03/16 Retail Sales ex-Auto SA M/M	(Feb)	-0.10%	5.9%
03/16 Retail Sales SA M/M	(Feb)	-0.70%	5.3%
03/16 Capacity Utilization NSA	(Feb)	75.5%	75.6%
03/16 Industrial Production SA M/M	(Feb)	0.0%	0.90%
03/16 Housing Starts SAAR	(Feb)	1,570K	1,580K
03/16 Leading Indicators SA M/M	(Feb)	0.40%	0.50%

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