Peapack Private
Wealth Management

The Weekly
Economic & Market Recap

September 3, 2021

9/3/2021		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	35,369.09	-86.71	-0.24	1.73	15.56	25.01
S&P 500	4,535.43	26.06	0.58	1.30	20.75	31.27
NASDAQ	15,363.52	234.02	1.55	0.62	19.21	34.08
S&P MidCap 400	2,760.55	-6.51	-0.24	1.26	19.68	44.85

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.20	Euro/Dollar	1.19	0.81
5-Year	0.79	Dollar/Yen	109.66	-0.28
10-Year	1.33	GBP/Dollar	1.39	0.93
30-Year	1.95	Dollar/Cad	1.25	-0.92

Source: Bloomberg/FactSet

What Caught Our Eye This Week

Hurricane Ida formed in the Caribbean Sea in late August, whipping through Cuba and the Cayman Islands before unleashing its powerful center near Port Fourchon, Louisiana, on August 29th, the 16th anniversary of Hurricane Katrina. The fourth (and so far strongest) storm of the 2021 Atlantic hurricane season, Ida later arrived in New York City as a weaker tropical storm and caused widespread flooding and a state of emergency declaration. While the current season has only produced four hurricanes, the most active and dangerous time (from August through October) is still underway. Global economic losses from weather events like storms, floods, droughts, and wildfires have growth in magnitude over the past decade. The years from 2000 to 2010 saw weather-related disasters of more than $200 billion in only two years. Since 2011, those size losses have become more normal, with weather events generating over $200 billion in global losses in seven of 10 years. 2017 was the costliest year, recording over $470 billion in total losses, including those from major Hurricanes Harvey, Maria and Irma. Weather damages tallied roughly $2.5 trillion around the globe between 2011 and 2020, a 50% increase from the prior decade. In the *2020 Weather, Climate and Catastrophe Insight* report, insurance service provider Aon Plc suggests that due to the influences of climate change, "the storms which do develop have the potential to be larger, more intense, and pose a greater risk to coastal and inland vulnerabilities."

Economy

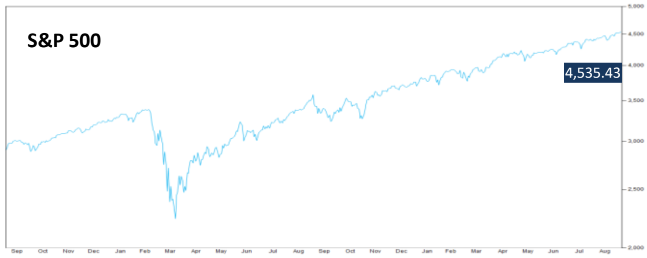
The economic headliner this week was the nonfarm payroll report, which was released on Friday. This report showed payrolls increasing 235,000 in August and the unemployment rate falling from 5.4% to 5.2%. There were also positive revisions made to the July employment figures totaling 110,000. Nonfarm payrolls are still down 5.3 million or 3.5% from the pre-pandemic levels of February 2020. The broad U-6 measure of unemployment dropped from 9.2% to 8.8% and the labor force participation rate was unchanged at 61.7%. Examining the different employment sectors, leisure and hospitality added no jobs, manufacturing secured 37,000 jobs and construction lost 3,000 jobs. Overall, nonfarm payrolls have risen 17 million since April 2020. In other news this week, the ISM manufacturing survey increased from 59.5 in July to 59.9 in August. The new orders index also increased, rising to 66.7. Overall, 15/18 industries reported growth. Finally, the Conference Board consumer confidence index missed expectations, declining to 113.8 in August. The labor market differential also fell, dropping to 42.8.

Fixed Income/Credit Market

Fixed income performance in the month of August was mixed for the sectors that we follow with riskier asset classes outperforming. The top performers were emerging market debt (non-currency hedged), senior loans, and 0-5 year high yield bonds which returned 0.9%, 0.75%, and 0.5%, respectively. The laggards in August were international Treasuries, international bonds, and high-quality long-term bonds which had respective returns of -0.9%, -0.43%, and -0.36%. The main factors which contributed to fixed income performance during the month were the depreciation of the U.S. Dollar (USD) and higher global interest rates whether through changes in monetary policy (i.e., emerging market key rate increases) or discussions surrounding less accommodative central banks through the form of asset purchase tapering. In the U.S., Treasury Note yields increased anywhere from 2.4 basis points (bps) to 8.9 bps. The spread between the 10-year German Bund and the 10-year U.S. Treasury is -168.8 bps, up from a year to date low of -205.6 bps, potentially another sign that interest rates amongst our global peers are trending upwards.

Equities

Domestic equities continued their positive momentum this week, and the S&P 500 posted a seventh-straight monthly gain on Tuesday – the longest streak since January of 2018. Furthermore, the S&P 500 closed at a new all-time high on Thursday. A noteworthy development is the recent persistence of growth stocks outperforming their value counterparts. This is likely due to a slowdown in recent economic and high frequency data coupled with skepticism about the ability of central banks to meaningfully dial back monetary stimulus. On a quarter-to-date basis, the Russell 1000 Growth has outperformed the Russell 1000 Value by 491 basis points, and the growth index is now the leader year-to-date. In other news, analysts continue to increase third quarter earnings estimates for companies in the S&P 500. According to FactSet, the Q3 bottom-up EPS estimate (which is an aggregation of the median EPS estimates for all the companies in the index) increased by 3.8% during the first two months of the quarter.



Our View

Most investors were keenly focused on Fed Chair Jerome Powell's long-awaited speech at the annual Jackson Hole Symposium. Overall, the tone of Mr. Powell's speech was constructive from the equity market's perspective because he set a relatively high bar for lift-off from the Fed's near-zero policy on interest rates. He said that the Fed plans to hold rates in the current range until the economy reaches conditions consistent with maximum employment and inflation has reached 2 percent and is on track to moderately exceed 2 percent for some time. Although Powell indicated that tapering would be happening perhaps more quickly than many investors had anticipated, the door was left open to modifying their position. New information regarding the labor market or consumer spending could cause delays on the timing and pace of tapering. In the past, the Fed has anticipated shifts in the economy and adjusted policy accordingly even before hard evidence appeared. This anticipatory approach at times caused policy mistakes. The "Powell" Fed has become extremely data dependent and is more reactionary. They would prefer to err on the side of being too easy for too long and allowing inflationary pressures to run, than risk being too restrictive and possibly truncating the economic recovery. Friday's employment report was an important data point before the Fed's September meeting. Nonfarm payrolls were far short of consensus expectations and on the surface a disappointment. The miss was partially offset by upward revisions of 134,000 to the prior two months, but on balance the report was a negative surprise. Given the weakness in the services and retail areas of the economy, it is tempting to blame the Delta variant for the shortfall, but there are several crosscurrents that could be a factor. In the minutes of the July FOMC meeting, policy makers said that they wanted to see if the pace of job creation can be sustained before adjusting policy. Our view has been that the Fed would announce their tapering plans after the September meeting. Given the uncertainties caused by the increase in Covid-19 cases and the drag of expiring fiscal stimulus, the Fed's bias toward remaining accommodative will make a delay in the tapering announcement a safer bet.

COMING UP NEXT WEEK		Consensus	Prior
09/09 Initial Claims SA	(09/04)	350.0K	340.0K
09/10 PPI ex-Food & Energy SA M/M	(Aug)	0.30%	1.0%
09/10 PPI SA M/M	(Aug)	0.50%	1.0%
09/10 NSA Y/Y	(Aug)	8.1%	7.8%

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