Peapack Private
Wealth Management

The Weekly
Economic & Market Recap

July 10, 2020

7/10/2020		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	26,075.30	247.94	0.96	2.50	-8.63	-2.64
S&P 500	3,185.04	55.03	1.76	1.90	-1.42	6.89
NASDAQ	10,617.44	409.81	4.01	0.80	18.33	30.41
S&P MidCap 400	1,772.98	-5.97	-0.34	2.02	-14.06	-8.95

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.16	Euro/Dollar	1.13	0.80
5-Year	0.30	Dollar/Yen	106.75	-0.81
10-Year	0.64	GBP/Dollar	1.27	1.56
30-Year	1.33	Dollar/Cad	1.36	-0.16

Source: Bloomberg/FactSet

What Caught Our Eye This Week

Podcast continues to grow in the United States driven by an explosion in new podcast programming and consumer adoption of “smart speaker” devices such as the Amazon Echo and Google Home. In 2017, 40% of Americans 12 years or older had listened to a podcast, compared to 55% in 2020. 75% of Americans are now familiar with podcasting. This is up from 51% in 2019 and indicates that roughly three-quarters of the people who are aware of podcasts have listened to one. It is no surprise that corporate America has taken notice and is shifting more dollars to podcasts. This week Omnicom Media Group, whose clients include McDonald’s, Pepsi, and AT&T, announced it plans to spend $20 million on advertising in podcasts distributed by Spotify. Omnicom’s Chief Investment Officer said they are increasing their clients’ ad dollars in podcasts not only due to the growth in listeners but because the technology allows them to measure the audience’s reaction. According to PricewaterhouseCoopers and Interactive Advertising Bureau, marketers are projected to spend $863.4 million on advertising in U.S. podcasts this year, up from $678.7 million in 2019. Other experts expect that podcast advertising revenues will surpass $1 billion in 2021.

Economy

The economic headliner this week was the ISM nonmanufacturing survey, which was released on Monday. These results easily beat expectations, gaining 11.7 points to 57.1 in June. This was the largest advance in series history dating back to 1997. The business activity index increased from 41.0 to 66.0 and the new orders metric advanced to 61.6. Overall 14/18 industries reported growth. On Tuesday the JOLTS report (job openings & labor turnover survey) showed the number of hires increasing by 2.4 million to 6.5 million and the level of job openings at 5.4 million. Over the past 12 months ending in May, the net change in employment yields a loss of 11.3 million. Initial jobless claims were released on Thursday and posted a decrease of 100,000 to 1.314 million during the week ending July 4th. This is the 14th straight weekly decline and the number of people receiving benefits fell to the lowest level since mid-April. Finally, on Friday the producer price index for June disappointed expectations with a decline of 0.2%. This decrease was led by a drop in food prices (-5.2%) and when excluding food and energy prices, the “core” PPI dropped by 0.3%.

Fixed Income/Credit Market

Global flare ups of the Coronavirus triggered a flight to quality trade that put downward pressure on U.S. Treasury (UST) yields week-over-week. The UST curve bull flattened, meaning the long-end of the UST curve dropped more rapidly than the front-end. The spread between the benchmark 2-year and 10-year tenors decreased 3.4 basis points (bps) to 48.2 bps. The move lower in yields was even more pronounced at the 20-year and 30-year tenors which decreased 8.4 bps and 10.1 bps, respectively. Thursday’s reopening of the $19B 30-year auction supported the notion that investors are flocking to the safety of U.S. Treasuries. The auction was award at 1.33%, roughly 2.6 bps below the pre-auction expectation. Additionally, the bid-to-cover ratio was 2.5x versus an average of 2.38x while the percentage of bonds awarded to indirect bidders was 72% of sales, 8.1% above the historic average for the 30-year auction. With short-term yields expected to remain ultra-low for the foreseeable future, demand for longer dated U.S Treasuries should continue. According to Bloomberg’s forward curve matrix, the 30-year yield is only forecasted to increase approximately 5 bps over the next year.

Equities

Stock market volatility continued this week as investors evaluated news about the rising number of coronavirus cases in certain states, and how it may affect the efforts to fully reopen the nation’s economy. Headlines about rising cases as well as commentary from state officials considering reclosing their states, left markets in the red on Tuesday and Thursday; the S&P 500 slid -1.08% and -0.56%, respectively. Despite the negative news, the remainder of the week’s trading sessions managed to post gains without any specific catalysts. Ultimately, all three major indices saw overall weekly gains with the S&P 500 at +1.76%, the Dow at +0.96%, and the Nasdaq at +4.01%. This week’s performance is a testament to the resilience the market has demonstrated since its March bottom. The coronavirus is still a very prominent risk, yet investors continue to chiefly shrug off these worries and move forward. Nevertheless, a number of outstanding questions and concerns remain in regard to how and when the economy will be fully open for business. The top performing sector for the week was consumer discretionary (+4.83%), while energy was the laggard (-4.63%).

Our View

Virus resurgence is a major risk right now with roughly half of the U.S. population experiencing a halt or rollback in reopening plans indicating that the path forward to fully revive the economy will be anything but smooth. Covid-19 case counts in the U.S. are rising rapidly at over 50,000 new cases per day, which easily surpasses the previous peak reached back in April. High frequency data, which had turned the corner once the reopening process commenced now shows signs of stalling. Economic data indicates that consumers are still cautious as they battle an invisible enemy. Moreover, roughly one third to half of Covid-19 transmissions occur from asymptomatic carriers according to research from the University of Oxford. Additionally, with an incredibly long incubation period (roughly five days) the disease can travel silently around a community before being detected. The previously mentioned points highlight a few of the reasons why this disease is so difficult to contain. But hope should not be lost as progress is being made on the medical front and the capacities of human ingenuity should never be underestimated. One factor that has been buttressing risk-on assets is that even though the case count is rising dramatically, it has not been associated with a rapid increase in new deaths due in large part to improved medical treatments. Moreover, there are more than 160 different programs that have been launched to develop and test new treatments including vaccines, antivirals, antibody treatments and anti-inflammatories. Back in 2015 the median time for U.S. regulators to approve a new drug was 333 days; however, given the current circumstances the approval process has been expedited. There is a high probability that numerous medical solutions will exist to combat Covid-19 at some point in the future, but the current situation is unquestionably having an enormous social and economic toll. Congress and the Fed have worked hard to help the U.S. population through this difficult time, but their work is far from over and it is our belief that additional fiscal and monetary stimulus will have to be rolled out in the coming months.

COMING UP NEXT WEEK		Consensus	Prior
07/14 CPI SA M/M	(Jun)	0.60%	-0.10%
07/15 Industrial Production SA M/M	(Jun)	4.4%	1.4%
07/16 Retail Sales SA M/M	(Jun)	5.4%	17.7%
07/17 Housing Starts SAAR	(Jun)	1,190K	974.0K
07/17 Michigan Sentiment NSA (Preliminary)	(Jul)	79.8	78.1

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