Peapack Private
Wealth Management

The Weekly
Economic & Market Recap

March 5, 2021

3/5/2021		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	31,496.30	563.93	1.82	1.93	2.91	20.58
S&P 500	3,841.94	30.79	0.81	1.50	2.29	27.05
NASDAQ	12,920.15	-272.20	-2.06	0.78	0.20	46.09
S&P MidCap 400	2,512.92	16.66	0.67	1.29	8.94	37.27

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.13	Euro/Dollar	1.19	-1.89
5-Year	0.80	Dollar/Yen	108.26	1.61
10-Year	1.58	GBP/Dollar	1.38	-1.15
30-Year	2.31	Dollar/Cad	1.27	0.21

Source: Bloomberg/FactSet

What Caught Our Eye This Week

The Baltic Dry Index (BDI), the Baltic Exchange's main sea freight index which tracks daily shipping rates for capesize, panamax and supramax vessels ferrying dry bulk commodities, advanced 16 points yesterday to close at 1,779, or +0.9%. This marks the highest level for the index since January 22nd and an almost 60% advance since mid-November. As an average of shipping costs for different types of vessels, the BDI signals the level of trade between nations. The index is considered a reliable indicator of future economic conditions. Shipping goods takes time, with most manufacturers and retailers placing orders a month or two ahead of their anticipated needs. In addition, the container ship leasing market is starting to firm with many liner operators committing to longer charters for 2-3 year periods at ever higher rates. The market for remaining 2021 available tonnage is quickly selling out. Container ship rates to the U.S. may increase by as much as 25% as retail trade stockpiles remain low and any replenishment thereof would mean continued import growth in the container market for the rest of the year.

Economy

The economic headliner this week was the nonfarm payroll report, which was released on Friday. This report showed payrolls surging by 379,000 in February and the unemployment rate little changed at 6.2%. Nonfarm payrolls are still down 9.5 million from their pre-pandemic level in February 2020. The broad U-6 measure of unemployment remains at 11.1% and the labor force participation rate was unchanged at 61.4%. Examining the different employment sectors, leisure and hospitality added 355,000 jobs, retail gained 41,000 jobs, and healthcare and social assistance secured 46,000 jobs. The payroll diffusion index, which measures the number of industries that increased employment, rose to 57.0. In other news this week the ISM manufacturing survey increased from 58.7 to 60.8 in February. The new orders index rose to 64.8 and 16 out of 18 industries reported growth. Finally, on Wednesday the ISM nonmanufacturing survey posted a decline, dropping from 58.7 to 55.2 in February. This figure was one of the largest declines in the survey's history and missed expectations. On the positive side, 17 out of 18 industries reported growth.

Fixed Income/Credit Market Year-to-date, the 10-year U.S. Treasury yield has increased 65.8 basis points (bps) to roughly 1.57%. The rise outpaces our global peer group anywhere from approximately 9.3 bps to 58.7 bps. Regardless of the size of the increase over our peer group, the U.S. 10-year Note remains a superior investment option with a spread vs peers from 82.1 bps to 188.2 bps. However, with the future path of U.S. yields unknown, investors should remain cautious of duration risk if they believe interest rate normalization will arrive sooner than later. Over a one-year horizon, a 100 bps increase in the 10-year yield would provide investors with a return of -9.1%.

Global 10-Year Yields			
Country	YTD Change	Current Yield	Current Basis point spread vs U.S.
U.S.	65.8	1.574	
U.K.	56.5	0.753	-82.1
France	29.6	-0.052	-162.6
Germany	27.1	-0.304	-187.8
Italy	21.2	0.751	-82.3
Spain	35	0.389	-118.5
Switzerland	30	-0.308	-188.2
Japan	7.1	0.084	-149

Equities

It was a choppy five trading days for domestic equities which spent most of the week heading lower before rebounding strongly on Friday. On Monday, the S&P 500 posted a 2.4% gain – its best day since June of last year – after stocks experienced some pressure last week. Equities proceeded to selloff over the next few days with most citing the recent backup in bond yields as the primary catalyst. Investors were also concerned that Fed Chair Powell did not push back against the higher rate backdrop and offered no commentary on how the Fed could bring long-term rates down if desired. In other news, the FDA granted emergency use authorization for Johnson & Johnson's single-shot coronavirus vaccine, and President Biden is now saying that the U.S. will have enough vaccines for every adult by the end of May. Furthermore, according to FactSet, Senate approval of Biden's $1.9 trillion stimulus bill is likely to occur this week-end. The growth and momentum trade meaningfully underperformed the value and cyclical trade this week as the Russell 1000 Growth declined 1.78%, while the Russell 1000 Value gained 2.59%.

Our View

Certain high frequency datapoints have shown improvement over the last month but still reside well below their pre-pandemic levels. The main driver of the economic recovery is the rollout and adoption of the vaccines, which is showing improvement and could lead to herd immunity at some point this summer in the U.S. Once society is generally free from COVID-19 restrictions, there will still be lasting scars to deal with. One of the most pressing issues surrounding the long-term impacts of the pandemic pertains to education. Many students have been learning remotely for the past year and those with technology issues have been struggling to keep up. Moreover, millions of college students have decided to place their educations on hold due to the perceived limitations of virtual learning. The modification of the traditional educational environment could weigh on productivity for years to come. Another scar caused by the pandemic exists with global supply chains and the breakdown in efficacy caused by regional spikes in the virus. Finished goods and components no longer flow as freely as they once did, which is adding to cost and hampering transportation efficiency. A third scar of the pandemic is the massive buildup of debt at the federal level. Just recently, net federal debt exceeded 100% of GDP, which is the highest level since World War II. Debt accumulation at the federal level is expected to remain sizable this year as well, with a $2.3 trillion dollar deficit according to the Congressional Budget Office's (CBO) baseline projection. Many individuals are concerned that the federal deficit has become unsustainably large. However, it is not the level of debt, but instead the cost to service the debt that is the true driver of sustainability. With interest rates at their current levels, the CBO projects that the net interest on federal debt will be below 2% of GDP in 2021, which is considerably lower than where it was when it peaked 30 years ago. Interest rates are rising and it has been concerning to markets, but interest rates are still historically low and have additional capacity to increase before financial conditions are negatively impacted.

COMING UP NEXT WEEK		Consensus	Prior
03/10 CPI ex-Food & Energy SA M/M	(Feb)	0.20%	0.0%
03/10 CPI NSA Y/Y	(Feb)	1.8%	1.4%
03/12 PPI ex-Food & Energy SA M/M	(Feb)	0.20%	1.2%
03/12 PPI NSA Y/Y	(Feb)	2.7%	1.7%
03/12 Michigan Sentiment NSA (Preliminary)	(Feb)	80.3	76.8