PEAPACK PRIVATE
Wealth Management

The Weekly
Economic & Market Recap

November 19, 2021

11/19/2021		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	35,601.98	-498.33	-1.38	1.74	16.32	20.75
S&P 500	4,697.96	15.11	0.32	1.28	25.08	31.16
NASDAQ	16,057.44	196.48	1.24	0.61	24.59	34.88
S&P MidCap 400	2,870.72	-31.47	-1.08	1.32	24.46	33.57

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.51	Euro/Dollar	1.13	-1.11
5-Year	1.22	Dollar/Yen	113.87	-0.08
10-Year	1.54	GBP/Dollar	1.35	0.48
30-Year	1.91	Dollar/Cad	1.26	0.56

Source: Bloomberg/FactSet

What Caught Our Eye This Week

With so many American companies citing the continued impact of Covid-19 on their businesses (supply chain, labor, pricing, etc.), it is instructive to review the very-challenging global Covid-19 landscape. Austria announced today that it will institute a national 20-day lockdown starting on Monday, and it will require all youth and adults be vaccinated by February 1st. With the significant spike in infections and deaths throughout Europe, stricter measures are being implemented in many other countries as well. Many European countries have vaccination rates that surpass the 59% vaccination rate in the United States. According to Johns Hopkins data, the 7-day moving average of new Covid-19 cases has surpassed last year's peaks in many European countries by a wide margin: Netherlands (up 50% from its record high last year), Austria (+60%), Germany (+69%), Slovakia (+71%), and Greece (+115%). Interestingly, the German population is 68% vaccinated, and of the patients being hospitalized in Germany for Covid-19, 45% are fully vaccinated. More countries are now urgently considering ramping up their booster vaccination programs. In other parts of the world, the progress in combating the pandemic is much farther behind. Six out of the top 15 most populous nations in the world have vaccination rates below 30% to include: India (28%) Pakistan (23%), Bangladesh (21%), Egypt (13%), Nigeria (1.6%) and Ethiopia (1.2%).

Economy

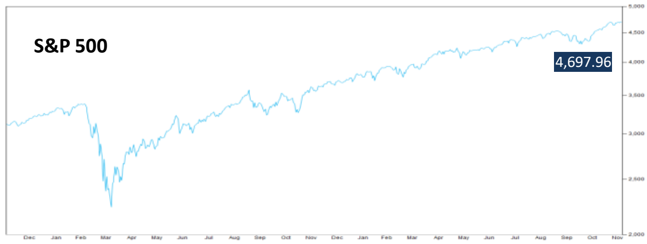
On Tuesday, retail sales and industrial production data was released. Retail sales showed a 1.7% increase in October, beating the consensus expectation of +1.4% and are now up 16.3% year-over-year. Eleven out of the thirteen major categories exhibited growth during the month, led by non-store retailers, autos and gas stations. "Core" retail sales, which excludes autos, building materials and gas stations, rose 1.3% and increased 15.4% from the prior year period. Industrial production rebounded in October increasing 1.6%, beating expectations of +0.9%. Every major category contributed to the month-over-month increase, and the auto sector was particularly strong increasing 11.0%. In other news, October housing starts declined 0.7% month-over-month to a 1.520 million annual rate, below expectations of 1.579 million. The decline was entirely due to single-family starts which dropped 3.9% relative to September's levels. Lastly, initial jobless claims for the week ended November 13th totaled 268,000, a decline of 1,000 from a week ago and slightly above consensus expectations of 260,000. The four-week moving average declined to 272,750 which is a new pandemic-era low.

Fixed Income/Credit Market

It is a rare occurrence for a Federal Reserve governor to issue a dissenting opinion on a monetary-policy decision; in fact, according to Bloomberg, it has not happened since 2005. Nonetheless, Fed Governor Christopher Waller stated publicly that the U.S. central bank should pivot from zero-lower bound interest rates and expedite the wind-down of asset purchases in light of strong job growth and inflation which far exceeds the FOMC's 2% target. However, uncertainties remain about the fallout from a fourth wave of Covid-19 spreading throughout Europe and potentially making its way to the U.S. The recent surge sent long-term U.S. Treasury yields tumbling on Friday as investors flocked towards the safety and security of U.S. government debt. The yield on the 10-year U.S. Treasury dropped 4.7 basis points (bps) to 1.54%, 10 bps below its two-week high of approximately 1.64% which occurred just three days ago on November 16th and well below the 2021 intraday peak of 1.77%. Bloomberg's forward curve matrix shows the 10-year hitting just 1.77% one year forward.

Equities

U.S. domestic equites delivered a mixed performance for the week as the prospect of new lockdowns in Europe pushed investors into bonds and other safe-haven assets. Valuation concerns, coupled with uncertainty surrounding Jerome Powell's future as Fed Chair, also contributed to the weak market breadth. Supply chain issues, rising inflation, and monetary tapering continue to be ongoing concerns as well. On the week, the S&P 500 and Nasdaq both rose 0.32% and 1.24%, respectively, while the Dow fell -1.38%. Information technology benefitted from the reemergence of Covid concerns, while discretionary stocks rallied on strong earnings. They were the top performing sectors this week, jumping 2.37% and 3.81%, respectively. Energy was the sector laggard, down -5.22%. Growth solidly outperformed value by 366 basis points.



Our View

President Xi Jinping of China and President Biden of the United States held a virtual summit this week. Relations between the two countries have become increasingly strained over the last decade as China has progressively asserted itself globally. Tensions only increased during the Trump administration as the U.S. imposed trade sanctions to correct what Washington perceived as abusive trade policies by China. Many analysts hoped that the change to the Biden administration would help lift relations, but unfortunately, that has not been the case. The summit's outcome was somewhat predictable with both sides pledging improved cooperation and a more open dialog. Ultimately, there was no agreement on any concrete future actions by either side that would bolster the relationship and lower the risk of an unintended conflict. The strength of the relation-ship between China and the U.S. has obvious geopolitical ramifications. From an economic perspective, both sides understand that a reasonable level of economic collaboration between the two largest economies in the world is crucially necessary to facilitate the smooth functioning of the overall global economy. Collectively, the U.S. and China account for roughly 35% of global GDP. After years of unfettered globalization and significant intertwining of economic activities between the U.S. and China, de-globalization began due to the uncertainty created by rising trade tariffs and trade barriers. De-globalization accelerated due to the pandemic as corporations worldwide realized just how fragile long distance global supply chains were. The retrenchment toward regional and local economic dependencies will only continue due to heightened political tensions between the world's two superpowers. We would expect the realignment of supply chains to create some cost pressures on inter-national corporations. The cost pressure has not been evident because consumption growth has been so strong, as the economy reflates post-pandemic. However, as the global economy decelerates, the cost pressures may become more apparent, which is just one of the potential challenges to earnings growth expectations. Consensus expectations are for earnings growth of 9.6% in 2022, which is not unreasonable relative to the 7.6% compounded annual growth rate over the last ten years. Since earnings expectations have been the primary driver of equity price levels, investors need to monitor potential threats to forward earnings closely.

COMING UP NEXT WEEK		**Consensus**	**Prior**
11/22 Existing Home Sales SAAR	(Oct)	6,200K	6,290K
11/24 Durable Orders SA M/M (Preliminary)	(Oct)	0.0%	-0.34%
11/24 New Home Sales SAAR	(Oct)	785.0K	800.0K
11/24 Personal Consumption Expenditure SA M/M	(Oct)	1.0%	0.60%
11/24 Personal Income SA M/M	(Oct)	0.40%	-1.0%

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