Peapack Private
Wealth Management

The Weekly
Economic & Market Recap

October 2, 2020

10/2/2020		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	27,682.81	508.85	1.87	2.22	-3.00	4.18
S&P 500	3,348.42	49.96	1.51	1.79	3.64	13.88
NASDAQ	11,075.02	161.45	1.48	0.78	23.43	40.04
S&P MidCap 400	1,902.79	85.52	4.71	1.82	-7.77	0.15

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.13	Euro/Dollar	1.17	0.82
5-Year	0.28	Dollar/Yen	105.36	-0.27
10-Year	0.70	GBP/Dollar	1.29	1.81
30-Year	1.49	Dollar/Cad	1.33	-0.65

Source: Bloomberg/FactSet

What Caught Our Eye This Week

One of the many challenges for companies during the coronavirus pandemic has been how to address escalating consumer demand juxtaposed with an increasingly fractured global supply chain. While they do not expect the hoarding seen this spring at the outset of the pandemic, retailers and food manufacturers are building inventory levels of essential items. Whether it is supermarkets building "pandemic pallets" of cleaners and sanitizing products, stockpiling groceries and storing them early, or food companies accelerating production of their most popular items, companies are preparing for a surge in demand should the recent uptick in Covid-19 cases bring a second wave of infections this fall. This has implications for the global supply chain as companies rethink sourcing from the lowest-cost supplier and just-in-time manufacturing in order to prioritize continuity of supply and resilience. Beyond the investments they have made in warehouses and e-commerce, companies are attempting to mitigate risk by strengthening relationships with suppliers and buyers, increasing transparency, utilizing more technology and automation to improve efficiency, and bringing production processes closer to home. This also requires increases in the number of suppliers, more working capital to purchase inventory, higher levels of accounts payable, and changes to an organization's capital structure in order to have the right inventory as the pandemic continues.

Economy

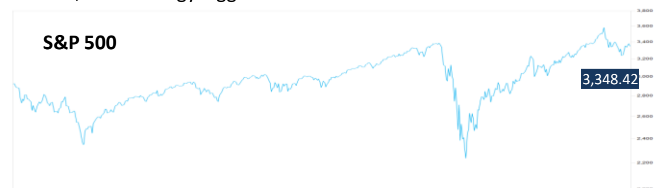
The economic headliner this week was the nonfarm payroll report, which was released on Friday. This report showed payrolls increasing by 661,000 in September, and the unemployment rate declining from 8.4% to 7.9%. The broad U-6 measure of unemployment also declined, dropping from 14.2% to 12.8%. The labor force participation rate decreased from 61.7% to 61.4%. Examining the different employment sectors, leisure & hospitality gained 318,000 jobs, retail added 142,000 jobs, and manufacturing secured 66,000 jobs. The payroll diffusion index, which measures the number of industries that increased employment last month, advanced from 69.0 in August to 70.3 in September. In other news this week personal consumption rose 1.0% in August and personal income declined by 2.7%. Personal income is now up 4.7% year-over-year while personal consumption is down 1.9%. On Thursday, the ISM manufacturing survey disappointed expectations posting a 55.4 in September. The new orders index dropped from 67.6 to 60.2 while 14 out of 18 industries reported expansion. Finally on Tuesday we were pleased to see the Conference Board consumer confidence index jump from 86.3 in August to 101.8 in September.

Fixed Income/Credit Market

Despite a political backdrop this week that had the makings for a risk off market move in the credit sector, investment grade and high yield bond spreads narrowed. The broader Bloomberg Barclays Investment-Grade (IG) and High Yield (HY) indices saw option-adjusted spreads (OAS) decrease a respective 5 and 27 basis points (bps). Furthermore, IG 5-year AA, A, BBB-rated composite spreads decreased 3, 2.9, and 2.3 bps, respectively. The drop in HY 5-year BB and B-rated composite spreads was more pronounced at 27.9 and 27.1 bps, respectively. Interest rate movements along the U.S. Treasury (UST) curve also indicated that investors were potentially moving away from the flight-to-quality trade. UST Note and Bond yields increased as much as 8.4 bps at the 30-year tenor. The benchmark 10-year UST yield increased 4.1 bps and closed Friday at 0.70%.

Equities

U.S. equities snapped their four-week losing streak, as all major indices posted weekly gains despite stocks finishing the Friday session mostly lower. The bounce back was primarily driven by positive speculation that Congress would pass a new coronavirus relief package. A bill was narrowly passed on Friday for $2.2T by the House, but it is unlikely to see Senate approval. Furthermore, stocks largely brushed off Tuesday's debate debacle, as no substantial changes in either candidates' favorability were perceived in the aftermath of the night's chaos. Friday morning's headline that both President Trump and First Lady Melania tested positive for COVID-19 sent markets lower and has injected a new degree of uncertainty into an already heavily strained environment. With 31 days until the election, new questions and concerns have arisen as to how this will affect the campaigns of both candidates, and the effects it may have on the stock market. Wednesday's trading session also marked the end of Q3, and subsequently the market's worst month since March. For September, the Dow dropped -2.28%, the S&P 500 -3.92%, and the Nasdaq -5.16%. For the week, financial and utilities led the pack up +3.31%, while energy lagged down -2.86%.



Our View

For many years, the relationship between the U.S. and China had been evolving in a positive direction. With China's transformation into a global manufacturing powerhouse and the U.S. consumers' desire for cost effective consumption, the two countries had become the largest global trading partners by 2014. However, major issues between the two nations, which had been developing for years, hit a boiling point in 2018 with the start of the trade war. More specifically, U.S. leaders had accused the Chinese of unfair trading practices which included, forced technology transfer, intellectual property theft and subsidies to domestic companies. China denied the accusations, but that did not stop the Trump administration from imposing tariffs on close to $500 billion of goods by 2019, which Bloomberg Economics estimates could lower global GDP by roughly 0.6% by 2021 (the estimate was made prior to the pandemic). Trade tensions did dissipate with the signing of the "phase one" trade deal, in which China agreed to address some of the above-mentioned unfair trading practices and purchase a substantial amount of U.S. goods. Unfortunately, China has fallen behind on its purchase commitments, but the two countries still remain committed to the deal. On a different note, the Trump administration has designated numerous Chinese technology companies as national security threats. The Chinese have responded by saying the designation is an attempt to suppress the development of Chinese companies. On another front, the U.S. has also revoked Hong Kong's special trading status, that had helped it develop into an international financial center after China imposed a new national security law in response to pro-democracy protests. An additional pain point between the U.S. and China pertains to the rerouting of supply chains out of China. The pandemic has made it abundantly clear how important diversified routes of production can be during times of crisis. It is not surprising that the relationship between the U.S. and China has deteriorated to its lowest point in approximately four decades and regardless of the upcoming election outcome, tensions between the two largest economies in the world will continue to simmer for the foreseeable future.

COMING UP NEXT WEEK		Consensus	Prior
10/05 BEA Total Light Vehicle Sales	(Sep)	15.5M	15.2M
10/05 ISM Non-Manufacturing SA	(Sep)	56.2	56.9
10/06 JOLTS Job Openings	(Aug)	6,250K	6,618K
10/07 Consumer Credit SA	(Aug)	$13.9B	$12.2B
10/08 Initial Claims SA	(10/03)	825.0K	837.0K

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