Peapack Private Wealth Management

The Weekly
Economic & Market Recap

August 20, 2021

8/20/2021		Wk Net	Wk %	Div	YTD %	12 Mos %
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	35,120.08	-395.30	-1.11	1.73	14.75	26.61
S&P 500	4,441.67	-26.33	-0.59	1.32	18.25	31.20
NASDAQ	14,714.66	-108.23	-0.73	0.65	14.17	30.62
S&P MidCap 400	2,675.67	-55.79	-2.04	1.30	16.00	39.69

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.22	Euro/Dollar	1.17	-0.96
5-Year	0.78	Dollar/Yen	109.81	-0.05
10-Year	1.26	GBP/Dollar	1.36	-1.73
30-Year	1.87	Dollar/Cad	1.29	2.89

Source: Bloomberg/FactSet

What Caught Our Eye This Week

Investors on the lookout for inflation need look no further than the automobile auctions recently held during Monterey Car Week and the Pebble Beach Concours d'Elegance, collectively thought to be the "Super Bowl of classic car collecting". Total sales from the auctions run by Gooding and Company jumped 35% to $345 million, while the average price per car increased 28% to $428,004 from $334,114. According to classic car insurer Hagerty, the sell-through rate (the percentage of cars up for auction that sold) was 80% in comparison with just 59% in 2019. Industry observers attribute the results, which included the most expensive car to sell at auction since 2018, to both higher prices and higher-quality cars even though the auctions had 25% fewer cars for sale than in 2019. Concerns about waning appetite from collectors or the overall health of the classic car market, after a surge in popularity and prices during the pandemic, were allayed with these strong results. Whether a collectible car serves as a hedge against inflation or is just a fun ride, the demand for these collectibles remains robust.

Economy

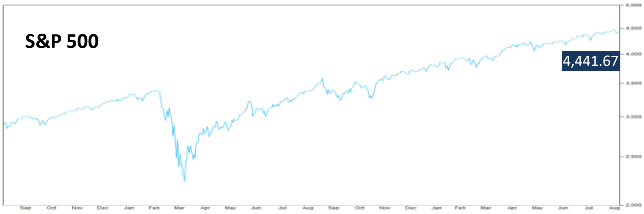
The most anticipated report this week was the retail sales report, which was released on Tuesday. Retail sales declined 1.1% in July, which was below consensus expectations. Over the past twelve months, retail sales are up 15.8%. Sales in July were about $91.9 billion or 17.5% higher than in February 2020. The "control" category, which excludes food service, autos, gas and building materials dropped 1.0%. There were positive revisions made to May and June "control" figures. In other news this week, industrial production numbers surpassed expectations rising 0.9% in July. Manufacturing output increased 1.4% and was led by motor vehicles and parts, up 11.2%. On Wednesday housing starts disappointed, posting a decline of 7.0% in July to 1.534 million units at an annual rate. Single family starts and permits also dropped, falling 4.5% and 1.7% respectively. Finally, on Thursday, weekly jobless claims fell from 377,000 to 348,000 during the week ending August 14th. The four-week moving average is now at 378,000.

Fixed Income/Credit Market

Surging Delta variant cases and the revival of the Taliban in Afghanistan weighed on the fixed income markets this week. U.S. Treasury yields showed signs of a flight-to-quality trade as interest rates ended Friday anywhere from +1.6 basis points (bps) to -6.2 bps. Furthermore, the threat of increased lockdowns across the globe may have contributed to a slight risk-off trade judging by the direction of credit spreads through Thursday. In the investment grade sector, the 5-year AA, A and BBB-rated composites are currently 2.6 bps, 1.9 bps, and 2.3 bps higher, respectively. The high yield sector saw the 5-year BB and B-rated composites widen 5.1 bps and 7.1 bps, respectively. Additionally, week-over-week, option adjusted spreads (OAS) increased a respective 3 bps and 5 bps on the Bloomberg Barclays U.S. Aggregate Corporate Index (Investment Grade) and the Bloomberg Barclays U.S. Corporate High Yield Index. While some might argue that these increases in credit spreads are somewhat benign, we are still not certain what impact future Fed tapering and potential rate hikes will have on corporate balance sheets.

Equities

Domestic equities declined this week after the S&P 500 posted a fifth-straight record close on Monday. According to Bloomberg, the S&P 500 has achieved 48 all-time highs since the end of December which marks the best start to a year since 1995. Furthermore, the report noted that the index has gone nearly 200 days without a 5% pullback which fits with the "buy-the-dip" mentality that many have referenced throughout the year. Stocks sold off on Tuesday and Wednesday over coronavirus concerns, weak economic data, and the release of minutes from July's FOMC meeting which showed members of the Fed discussing the timeline and pace of tapering their $120 billion per month asset-purchase plan. However, the selloff was yet again short-lived as equities rallied into the end of the week with the S&P 500 posting a 0.81% gain on Friday. The general risk-off tone helped defensive sectors outperform with utilities and healthcare gaining 1.80% and 1.77%, respectively. The cyclical sectors underperformed this week with energy and materials declining 7.33% and 3.10%, respectively.



Our View

The lockdowns that were put into place in 2020 as a response to the pandemic effectuated a massive and rapid drawdown in economic activity. The reopening of economies due to lifestyle adaptations and the dissemination of highly effective vaccines coupled with enormous amounts of monetary and fiscal policy stimulus allowed the economy to bounce back aggressively. In hindsight, it is apparent that shutting an economy down is much easier than opening it back up as many supply chains have struggled to keep up with strong demand. Moreover, consumers in aggregate accumulated a large sum of savings during the lockdown phase and have been motivated spenders through the reopening given their pent-up demand. But, with supply chains stressed to keep pace with demand, companies are running down their inventories and the latest surge of the Delta variant may make matters more tenuous. Many supply chains are situated in China and recent reports indicate that Covid-19 is negatively impacting the Chinese economy the most since the onset of the pandemic. Moreover, several parts of China have reimposed stringent lockdowns and air travel has dropped dramatically. On a longer-term basis, numerous companies have made the strategic decision to bring production back home and shorten supply lines which would reduce their dependency on China. However, rerouting supply chains takes time and is not a short-term solution. It is not surprising that that inflation is running hot at the moment and thanks to the Fed's new inflation framework of flexible average inflation targeting, they will be reactive as opposed to proactive when dealing with higher levels of inflation. The Fed feels the current high levels of inflation will prove to be transitory and supply chains and labor markets will normalize as the economic reopening matures. Moreover, market-based inflation expectations, which surged in May, have moderated recently and indicate that investors are not currently concerned with persistent runaway inflation. However, if inflation remains at its current level for an extended period, it could impact inflation expectations and lead the Fed to tighten monetary policy more quickly than current projections suggest, which will weigh on risk assets.

COMING UP NEXT WEEK		Consensus	Prior
08/23 Markit PMI Manufacturing SA (Preliminary)	(Aug)	63.1	63.4
08/24 New Home Sales SAAR	(Jul)	690.0K	676.0K
08/25 Durable Orders SA M/M (Preliminary)	(Jul)	0.65%	0.91%
08/27 Personal Consumption Expenditure SA M/M	(Jul)	0.45%	1.0%
08/27 Personal Income SA M/M	(Jul)	0.50%	0.10%
08/27 Michigan Sentiment NSA (Final)	(Aug)	70.2	70.2

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