PEAPACK PRIVATE
Wealth Management

The Weekly
Economic & Market Recap

October 1, 2021

10/1/2021		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	34,326.46	-471.54	-1.36	1.79	12.15	23.40
S&P 500	4,357.04	-98.44	-2.21	1.36	16.00	28.88
NASDAQ	14,566.70	-481.00	-3.20	0.66	13.02	28.61
S&P MidCap 400	2,683.64	-15.74	-0.58	1.36	16.35	42.37

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.27	Euro/Dollar	1.16	-1.00
5-Year	0.93	Dollar/Yen	110.97	0.23
10-Year	1.47	GBP/Dollar	1.35	-1.00
30-Year	2.04	Dollar/Cad	1.27	-0.17

Source: Bloomberg/FactSet

What Caught Our Eye This Week

The number of container ships sitting idle off both the east and west coasts of the United States (as of late this week, at least 100 ships floated outside the Port of Long Beach) and unable to gain entry to major ports of entry continues to grow. Shipping companies and retailers have already been struggling with the massive backlog of goods. Beyond generally slowing down the nation's supply chain, the delays in shipping have increased costs for consumers and diminished the availability of goods in time for the holiday season. Large retailers like Costco, Walmart and Home Depot have adapted to these obstacles in real time. They are renting their own containers to better manage shipping costs (currently six times as high as historical amounts) and are redirecting freight to alternative ports such as Oakland, Vancouver, Savannah, or Houston to circumvent the delays. In a call with investment analysts, Costco said it may make as many as ten deliveries over the next year using these ships, accounting for about 20% of its imports from Asia. Higher labor costs, extreme freight costs, and elevated transportation demand, along with container shortages and port delays, will likely be a significant factor in retailers' businesses for the intermediate future.

Economy

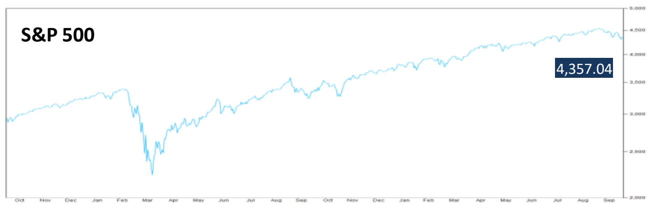
The economic headliner this week was the durable goods report, which was released on Monday. Overall, new orders for durable goods increased 1.8% in August, which was noticeably better than expectations. Over the past year these orders are up 18.1%. Excluding the volatile transportation sector, core capital goods orders increased 0.5% and core capital goods shipments rose 0.7%. On Tuesday, the Conference Board consumer confidence index posted a large decline, dropping from 115.2 to 109.3 in September. The labor market differential also declined, decreasing to 42.5 in September. Initial jobless claims were released on Thursday and disappointed, rising 11,000 to 362,000 during the week ending September 25th. These claims have now risen for three straight weeks and the four-week moving average ticked up to 340,000. On Friday, real consumer spending posted a 0.4% advance in August while personal income gained 0.2%. Finally, the ISM manufacturing survey increased to 61.1 in September and new orders were unchanged at 66.7.

Fixed Income/Credit Market

August readings for both headline and core PCE inflation came in on Friday at the highest year-over-year increases since 1991 at 4.3% and 3.6%, respectively. Elevated inflation coupled with central banks ready to facilitate a path towards normalization could present a challenge for bond investors who have added duration to their portfolios to compensate for ultra-low interest rates on the front-end of yield curves. Year-to-date, interest rates on the long-end of the U.S. Treasury curve have increased 53 basis points (bps) on the 20-year bond (middle maturity of longer-term U.S. Treasury debt). A similar increase over a one-year horizon would provide an investor with a total return of approximately -5.9%. Not an impossible scenario if central banks tighten monetary policy and inflation remains elevated. However, if central banks hike rates but inflation proves to be transitory, duration plays might not need to be unwound. In any case, investors should add duration with caution given continued uncertainty surrounding global growth and inflation outlooks.

Equities

Markets kicked off October on the upswing as investors exhibited some risk appetite to round out what was overall a turbulent week. On Friday, the S&P 500, Dow and Nasdaq all rose; however, earlier in the week, equities were under significant pressure due to several factors. Concerns over the Delta variant, inflation, overseas energy shortages, on-going supply chain issues, wrangling in Washington over the debt ceiling, and rising bond yields ultimately led to weekly losses among the major indices. These issues – combined with the fears of contagion from the failure of China's Evergrande Group – were banes for the entire month of September. With Thursday's close, the market's impressive run finally came to an end as the S&P 500 finished with its worst monthly record since March 2020, falling -4.8%. The Dow and Nasdaq similarly dropped -4.3% and -5.3%, respectively, on the month. Value outperformed growth significantly for the month at 212 basis points (bps) and for the week at 262 bps. Energy was the only sector to finish the week in positive territory.



Our View

Last week's FOMC meeting delivered a widely anticipated tapering signal as Fed officials acknowledged the labor market continues to heal from the devastating impacts of the pandemic and their inflation criteria for tapering has been met. Moreover, the FOMC statement went on to note that "if progress continues broadly as expected, the Committee judges that moderation in the pace of asset purchases may soon be warranted." The current pace of asset purchases is enormous at $120 billion of agency MBS and U.S. Treasuries per month, which has taken the total assets of the Fed's balance sheet to over $8 trillion. In the press conference after the meeting, Chairman Powell mentioned that the tapering process could be completed by the middle of 2022, which would imply that the pace of asset purchases would be reduced by approximately $15 billion per month. The Fed has fallen behind other foreign central banks in terms of its progress towards reducing monetary policy accommodation due to the fear of potentially truncating the current economic expansion. Some market participants have focused on the taper tantrum of 2013, which caught many off guard and caused U.S. Treasury yields to rise and volatility to elevate. However, there are clear differences between the previous Fed tapering of asset purchases and the current one. First, fiscal policy has been more robust in response to the pandemic than it was after the financial crisis, which has helped economic growth rebound quickly to pre-pandemic levels. Second, the Fed has learned a lot from the taper tantrum of 2013 and has been very detailed and deliberate in communicating what must be accomplished in order to move forward. Lastly, the Fed has indicated that the pace and timing of future tapering is not set in stone and will be flexible as the labor market and financial conditions evolve. It is our belief that the Fed has set the stage for an official taper announcement at their meeting in early November with a start in December. However, the future path of international risks along with the inability of Congress to raise the debt ceiling over the next few weeks could push back the tapering timeline.

COMING UP NEXT WEEK		Consensus	Prior
10/04 Durable Orders ex-Transport SA M/M (Final)	(Aug)	0.20%	0.20%
10/04 Durable Orders SA M/M (Final)	(Aug)	1.8%	1.8%
10/04 Factory Orders SA M/M	(Aug)	1.0%	0.40%
10/05 ISM Non-Manufacturing SA	(Sep)	59.0	61.7
10/08 Hourly Earnings Y/Y (Preliminary)	(Sep)	4.6%	4.3%
10/08 Nonfarm Payrolls SA	(Sep)	475.0K	235.0K
10/08 Unemployment Rate	(Sep)	5.1%	5.2%

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