PEAPACK PRIVATE
Wealth Management

The Weekly
Economic & Market Recap

Peapack Private Wealth Management

April 3, 2020

4/3/2020		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	21,052.53	-584.25	-2.70	3.03	-26.23	-19.58
S&P 500	2,488.65	-52.82	-2.08	2.44	-22.97	-13.20
NASDAQ	7,373.08	-129.30	-1.72	1.16	-17.83	-6.06
S&P MidCap 400	1,337.95	-84.97	-5.97	2.69	-35.15	-30.14

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.22	Euro/Dollar	1.08	-2.35
5-Year	0.38	Dollar/Yen	108.51	0.29
10-Year	0.59	GBP/Dollar	1.23	-0.77
30-Year	1.21	Dollar/Cad	1.41	0.18

Source: Bloomberg/FactSet

What Caught Our Eye This Week

Over almost any time period during the last ten years, the universe of large-capitalization value stocks (those companies whose shares trade at a lower price relative to fundamental measures) has significantly underperformed growth stocks. Market strategists and researchers who follow this divergence suggest that the market may be in the process of shifting to favor value stocks. While growth stocks (especially those with strong asset growth, high free cash flow margins and price momentum) have continued to beat the rest of the market and investor appetite for them has yet to fade; observers note that over several days in late March the returns for value stocks exceeded those of growth stocks by 4%. Value stocks sell at a significant discount to the market based on their trailing price-to-earnings (P/E) multiples. This is the third widest differential in the past seven decades and represents a valuation spread for U.S. large-capitalization stocks which is approximately 3¼ standard deviations (a statistical measure which captures the magnitude of a value's dispersion from an average) higher than their historical median over the past 94 years. Analysts observe a similar growth/value phenomenon within smaller capitalization stocks. While it is likely that value stocks will someday outperform growth stocks, the exact timing of this is difficult to determine.

Economy

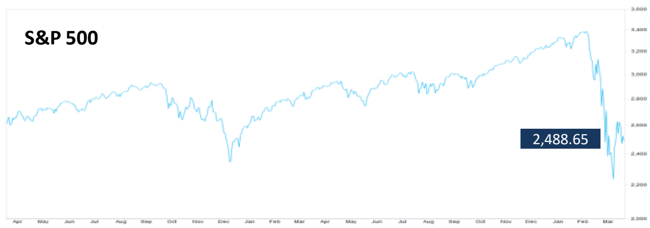
The most anticipated report this week was the nonfarm payroll report, which was released on Friday. This report showed payrolls decreasing by 701,000 in March, which was significantly worse than expectations. The unemployment rate increased to 4.4% from 3.5%, and the U-6 measure of unemployment rose to 8.4%. The labor force participation rate declined to 62.7%, and there were negative revisions of 57,000 jobs made to the January and February reports. Average hourly earnings rose by 0.4% and the year-over-year gain is now at 3.1%. Examining the different employment sectors, leisure and hospitality lost 459,000 jobs, healthcare lost 43,000, and professional and business services shed 52,000 jobs. Overall, the 0.9% rise in the unemployment rate is the largest month-over-month increase since January 1975. In other news this week, the ISM manufacturing survey decreased to 49.1 in March, and the new orders index declined to 42.2. In total, 10 of 18 industries reported growth. Finally on Friday the ISM nonmanufacturing survey posted a drop to 52.5 from 57.3, and the new orders index declined to 52.9 from 63.1.

Fixed Income/Credit Market

It was a disparate first quarter for the fixed income sectors due to the spread of COVID-19 and the Saudi-Russian oil price war. The sectors that we follow had mixed results by extremely wide margins with the top performers being long-term and intermediate high-quality bonds as well as highly liquid mortgage-backed securities which returned 6.9%, 2.9%, and 2.86%, respectively. The laggards during Q1 2020 were emerging markets debt (non-currency hedged), preferred equity, and high yield bonds which returned -15%, -14.56%, and -13.32%, respectively. The poor performance of riskier asset classes did not come as a surprise when investors flocked towards safe-haven assets and simultaneously sold higher yielding (HY) securities as HY credit spreads widened 764 basis points (bps) to a high of 1,100 bps on March 25th. The combination of a flight-to-quality trade and the Fed effectively reducing the overnight rate to 0% put downward pressure on U.S. Treasury yields which decreased as much as 145.7 bps. The 10-year tenor ended March at 0.67%, a 124.9 bps decrease in Q1.

Equities

U.S. domestic equities closed down 3 out of the 5 trading days this week with energy being the top performing sector +5.38%, and utilities being the laggard -7.11%. The gains posted on Monday and Thursday were mainly driven by headlines ascribing potential testing methods and treatments for COVID-19. Investor sentiment also received a boost on Thursday after President Trump tweeted his expectations for Saudi Arabia and Russia to end their oil price-war and curb the commodity's production. The two nations will hold a virtual summit this upcoming Monday. The remainder of the week saw stocks decline however as economic data, governmental policies, and rising case counts indicate that the country has not yet weathered the worst of the pandemic. Tuesday marked the close of 2020's first fiscal quarter. For the quarter, the market's worst since Q4'08 amidst the financial crisis, the S&P 500 surged to record highs only to drop more than 35% by mid-March. The market has however bounced back by 13% since its March low. Looking ahead, Q2 is almost certain to remain volatile as questions about the coronavirus' ultimate effect on the economy still remain unanswered.



Our View

Last Friday, the House of Representatives approved the Coronavirus Aid, Relief, and Economic Security (CARES) Act by a voice vote and the President signed it into law. The CARES Act is a massive $2.2 trillion bill in response to the economic damage caused by the Covid-19 pandemic. One of the major components of this financial-support package is the Small Business Administration's Paycheck Protection Program (PPP). The PPP would provide SBA lenders up to $350 billion in government-guaranteed loans to cover up to eight weeks of payroll and other expenses, and importantly, if businesses keep their workforce intact the loans would be forgiven. The SBA expects that business owners will be able to apply for loans as soon as today, but many details of the program remain unclear, and banks are pushing back on the start date until important parameters are more well defined. Lenders want to participate in the program to support local businesses in their communities, but lack of clarity regarding the program details and the program's questionable economics for banks has created a hesitancy for some banks. Interest rates for PPP loans were initially set at 0.5%, which is too small to cover the financing and cost of administering the loans. At the request of community banks, Treasury Secretary Mnuchin said on Thursday night that the interest rate would be raised to 1% to entice banks to participate in the program. A well-functioning support program that can provide the needed financial assistance to small businesses to bridge them to the economic recovery is vitally important. Small businesses employ 59 million people in the U.S., which makes up 47.5% of the country's workforce. Last year, in the SBA's signature 7(a) and 504 programs, the SBA approved 58,000 loans totaling $28 billion. The PPP is a massive escalation in lending activity that will require millions of loans and it needs to scale very quickly to provide the desired safety net. Undoubtedly, there will be trials getting out of the gate and there will be unintended consequences. CARES Act programs will require midcourse corrections, but implementing these important programs are critical to limiting the economic damage of the pandemic and setting the stage for a recovery sometime in the second half.

COMING UP NEXT WEEK		Est.
04/09 Initial Claims SA	04/04	5,000K
04/09 PPI SA M/M	(Mar)	-0.30%
04/09 Michigan Sentiment NSA (Prelim)	(Apr)	82.8
04/10 CPI NSA Y/Y	(Mar)	1.3%

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