Peapack Private
Wealth Management
The Weekly
Economic & Market Recap
February 26, 2021

2/26/2021		Wk Net	Wk %	Div	YTD %	12 Mos %
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	30,932.37	-561.95	-1.78	1.96	1.06	14.22
S&P 500	3,811.15	-95.56	-2.45	1.52	1.47	21.83
NASDAQ	13,192.35	-682.12	-4.92	0.76	2.36	47.14
S&P MidCap 400	2,496.26	-39.13	-1.54	1.33	8.22	27.89

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.12	Euro/Dollar	1.21	0.09
5-Year	0.74	Dollar/Yen	106.54	0.86
10-Year	1.44	GBP/Dollar	1.40	-0.23
30-Year	2.14	Dollar/Cad	1.27	0.40

Source: Bloomberg/FactSet

What Caught Our Eye This Week

Copper, the bellwether of the industrial metals sector, recently hit a nine-year high. The base metal is used in many construction materials (roofing and plumbing), electrical equipment (wiring and motors), and industrial machinery. The actual demand and expected future demand coupled with concerns over supply have been the primary driver of the higher prices. The demand in the U.S is driven by the increased focus on renewable energy and electric vehicles, the hope of the reopening of the economy and President Biden's plan on investing in America's infrastructure. The bigger focus of the demand side is from China, which consumes half the world's copper. Strong demand from China and its ongoing economic recovery is expected to continue. With China recently committing to carbon neutrality by 2060 and the return of the United States to the Paris Agreement on climate change, the decarbonization push is becoming both global and synchronized. Goldman Sachs believes that this synchronization along with the lack of supply provides for a "supercycle" (defined as a decade long above trend movement in its price) for the metal.

Economy

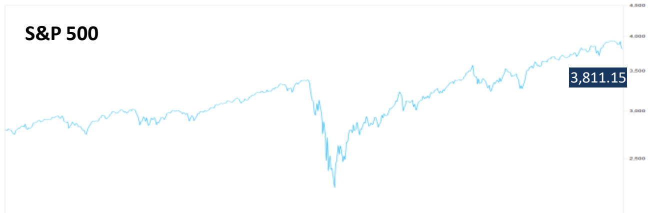
The economic headliner this week was the durable goods report, which was released on Thursday. Overall, new orders for durable goods increased 3.4% in January easily beating consensus expectations. Excluding the volatile transportation sector, core capital goods orders gained 0.5% and core capital goods shipments rose 2.1%. At this juncture, it appears real growth in equipment spending will approach 20% in the first quarter. On Tuesday, we were pleased to see the Conference Board consumer confidence index rise from 88.9 to 91.3 in February, and its labor market differential improve to +0.7. New home sales data were released on Wednesday and registered a 4.3% increase in January to 923,000 units at an annual rate. These figures easily beat the consensus and new home sales are now up 19.3% year-over-year. On Thursday, the second look at fourth quarter real GDP showed a slight increase, rising from 4.0% growth to 4.1%. Finally, on Friday, real consumer spending rose 2.0% in January and nominal income surged 10% (federal support). The personal savings rate also surged and is now at 20.5%.

Fixed Income/Credit Market

The U.S. Treasury (UST) yield curve sold off materially again this week – as much as approximately 14 basis points (bps) at both the 5 and 7-year tenors. While yields spent the early part of the week through Wednesday steadily moving higher, rates surged on Thursday anywhere from 0.4 bps to 21.9 bps. Market participants chalked up part of the sell off in the beginning of the week to convexity hedging (selling longer-duration Treasuries when mortgage-backed security durations extend due to a rise in interest rates). However, by Thursday traders rationalized that the 5-year part of the curve is a reflection of medium-term market expectations for Fed policy and an increase above 0.75% is more than just a result of convexity hedging. Once 5-year Notes crossed the Rubicon on Thursday, the sell off was exacerbated. 5-year Note yields increased 21.9 bps to close Thursday at 0.82%. Additionally, on Thursday the benchmark 10-year Note increased 14.6 bps which steepened the spread between 2-year and 10-year yields 9.6 bps to 134.8 bps.

Equities

Equities closed on Friday in mixed fashion to round out another week of high volatility in which all major indices posted losses. For the second consecutive week, the NASDAQ, S&P 500, and Russell 2000 finished lower. They dropped -4.92%, -2.45%, and -2.90%, respectively. The week's volatility is again attributable to investors' efforts to absorb the rapid rise in bond yields. For several weeks, positive sentiment has been sustained due to a combination of the Fed's easy-money policies, the vaccine rollout, and the promise of new fiscal stimulus. Stretched valuations, especially in the technology space, as well as the sharp turnaround in the bond market have fueled concerns. Expectations that the Federal Reserve may raise interest rates sooner than previously anticipated has also tempered enthusiasm for stocks, as rising inflation could hinder economic growth. Regardless, investors still feel that the vaccine effort and increased government spending paints a robust picture for the performance of stocks from a long-term perspective. Sector wise, utilities was the week's loser, down -5.05%, while energy, the week's only positive performer, rallied 4.33%.



Our View

Interest rates have moved dramatically higher with the 10-year Treasury rising over 55 basis points (bps) since the start of the year breaking through 1.50% on Thursday. Increasing interest rates is the most significant storyline of the last few weeks. In general, investors have an innate ability to rationalize and justify difficult issues that they hope not to deal with. Such is the case with interest rates. The rising intermediate and longer ends of the yield curve have largely been ignored until now. Rates certainly remain at historically low levels and are supportive of the overall economy as well as asset prices, but the speed of the recent rate rise is starting to be noticed. Growth stocks, that are more heavily impacted by higher interest rates due to the long-dated nature of their revenue streams, are starting to lag dividend-oriented value names. Over the last 30 days, the growth-oriented NASDAQ has underperformed the DJIA by more than 500 bps. Expectations for the economic recovery are improving as the Covid-19 case count falls and the vaccine rollout picks up place. The remarkably strong retail sales numbers in January, that were significantly enhanced by the federal government's $900 billion fiscal stimulus distributed in December, illustrate the potential for a dynamic recovery as people return to their normal spending patterns. The prospect for Biden's $1.9 trillion in additional stimulus, that will likely come to a vote in mid-March, could really be an accelerant for the economy. The Atlanta Fed's GDPNow forecast currently estimates U.S. GDP will grow over 9% annualized for the first quarter. Financial markets seem to be expressing some concern over the possibility of a short-term mismatch between supply and demand, given the massive stimulus package and very easy monetary policy, as demand picks up. Inflation expectations have already risen, and now real rates are starting to adjust higher as well due to the more robust economic outlook. Higher rates will create volatility in risk assets as markets adapt to a different discount rate structure, especially if the speed of the rate move is too fast.

COMING UP NEXT WEEK		Consensus	Prior
03/01 Markit PMI Manufacturing SA (Final)	(Feb)	58.5	58.5
03/01 ISM Manufacturing SA	(Feb)	58.6	58.7
03/04 Durable Orders SA M/M (Final)	(Jan)	1.0%	3.4%
03/04 Factory Orders SA M/M	(Jan)	0.50%	1.1%
03/05 Nonfarm Payrolls SA	(Feb)	200.0K	49.0K
03/05 Unemployment Rate	(Feb)	6.4%	6.3%%

For more information about our solutions: http://peapackprivate.com