PEAPACK PRIVATE

Wealth Management

The Weekly

Economic & Market Recap

November 5, 2021

11/5/2021		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	36,327.95	508.39	1.42	1.70	18.69	27.96
S&P 500	4,697.53	92.15	2.00	1.27	25.07	33.82
NASDAQ	15,971.59	473.20	3.05	0.60	23.92	34.32
S&P MidCap 400	2,905.11	111.00	3.97	1.29	25.95	42.61

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.39	Euro/Dollar	1.16	-0.16
5-Year	1.05	Dollar/Yen	113.46	-0.50
10-Year	1.45	GBP/Dollar	1.35	-1.59
30-Year	1.89	Dollar/Cad	1.24	0.35

Source: Bloomberg/FactSet

What Caught Our Eye This Week

The meme stock craze is driven largely by investors on social media platforms and in online forums. A meme stock is any stock that sees increased popularity or awareness based on social media discussions. One platform at the center of the meme stock rallies is WallStreetBets on Reddit. A stock draws attention usually because it is undervalued and gains sudden popularity causing an upward surge in its stock price. One problem with meme stocks is that it is difficult to predict which ones will take off and how long the ride will last. The common theme is that the stocks were fueled by social media. A meme stock's value is rooted in social sentiment rather than on its fundamentals. There can be highs during strong demand but there can be lows amid mass exoduses. Volatility tends to be higher with meme stocks as they tend to maintain their peak for a limited time. In January, Gamestop stock price jumped from $19 on January 4th to $379.71 on January 29th and back down to $44.70 by February 24th. Interestingly, there were two new ETF's (Exchange Traded Funds) launched in 2021 which track an index of stocks trending on social media. Both have underperformed the S&P 500 since their inception.

Economy

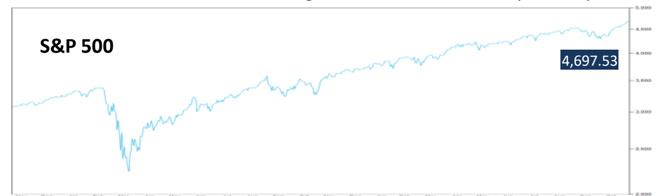
The economic headliner this week was the nonfarm payroll report, which was released on Friday. This report showed payrolls increasing 531,000 in October and the unemployment rate falling from 4.8% to 4.6%. There were also positive revisions made to the prior two months totaling 235,000. The broad U-6 measure of unemployment fell to 8.3% and the labor force participation rate was unchanged at 61.6%. Average hourly earnings increased 0.4% and are now up 4.9% year-over-year. Examining the different employment sectors, leisure and hospitality added 164,000 jobs, manufacturing gained 60,000 jobs, and construction secured 44,000 jobs. The payroll diffusion index, which measures the number of industries increasing employment last month rose to 71.8%. In other news this week, the ISM manufacturing survey decreased from 61.1 to 60.8 in October. The new orders index also dropped, falling from 66.7 to 59.8. Overall, 16 out of 18 industries reported growth. Finally, on Wednesday, the ISM services survey increased from 61.9 to 66.7 in October, marking a new all-time high.

Fixed Income/Credit Market

In a nutshell, the FOMC left the Fed funds rate unchanged on Wednesday at the zero-lower bound (ZLB) while announcing the commencement of tapering asset purchases by $15B ($10B Treasuries and $5B Mortgage-backed Securities) a month beginning in mid-November. Said differently, the Fed's balance sheet will continue to expand albeit at a slower pace until approximately June 2022. Since Wednesday, the reaction has been somewhat surprising to many market participants given the drop in U.S. Treasury (UST) rates, particularly the swiftness of the move lower on the back-end of the UST yield curve. The benchmark 10-year tenor is down roughly 10 bps since the close of trading on Tuesday at 1.55%. The move lower is a stark reminder of how quickly market sentiment can change because roughly two weeks ago, pundits were discussing whether or not the 10-year would breach its 2021 intraday peak of 1.77% when it touched 1.70% on October 21st. The recent move lower could be an indication the market believes that if the Fed pulls forward rate hikes to the second half of 2022, it could weigh on future economic growth prospects.

Equities

It was yet another strong week for domestic equities with all three major indexes finishing Friday at new all-time highs. The S&P 500 has now posted positive returns in five consecutive weeks. The upward momentum in stocks was bolstered by several developments. On Wednesday and Friday, signs of continued economic recovery were supported by strong employment reports showing large increases in payrolls during October. Furthermore, some of the world's largest central banks reinforced the narrative that shifts away from accommodative monetary policies will be a slow and gradual process. On Friday, Pfizer reported that its Covid-19 drug used with an HIV drug cuts the risk of hospitalization by 89%. This resulted in a strong rally for stocks geared toward the reopening of the economy. In other news, on Tuesday, the Russell 2000 – a widely followed index for small-cap domestic stocks – posted its first all-time high since March. Small-cap stocks were very strong performers this week with the index gaining 6.09%. The only two sectors that posted declines were financials and healthcare returning -0.63% and -0.67%, respectively.



Our View

Equity markets enthusiastically greeted the Federal Reserve's announcement on Wednesday that it will reduce its bond purchase program by $15 billion per month beginning this month. If the Fed can maintain the pace of tapering at the planned rate, then the bond-buying program would end by next June and set the stage for interest rate liftoff when necessary. The speed of the tapering is highly dependent on the trend in inflation expectations. If inflation remains stubbornly high and begins to get embedded in long-term inflation expectations, then the Fed will need to take more aggressive actions to normalize its accommodative position. The Fed's assessment regarding when the economy is at full employment is an important consideration. The Fed does not want to tighten too quickly if there is slack in the labor market and potentially damage the economic expansion. They also do not want to wait too long and let labor conditions become too tight and continue to spark wage inflation. Judging when the economy is at full employment is very difficult but is especially so in this recovery. Many people have fundamentally reassessed their employment priorities due to the pandemic and may not behave as they have in prior cycles. Despite substantial job growth in October, the labor participation rate remained stuck at 61.6%. The labor participation rate has remained in a very tight range between 61.4% and 61.7% since June 2020. Higher wages have not been sufficient to induce more people to come back and take jobs despite roughly 11 million unfilled positions. If millions of workers reenter the labor force over the coming months as Covid fears subside, labor shortages should dissipate, and inflation pressures should recede. But the uncertainty of the reentrance of workers coupled with rising employment costs (the employment cost index in September was the highest year-over-year in 39 years) is intensifying the pressure on the Fed to get the pace of normalization right. Also, adding to the difficult decisions confronting the Fed is that they must reduce accommodation at a time when economic growth is certain to slow from the rapid bounce of the economic reopening.

COMING UP NEXT WEEK		Consensus	Prior
11/09 PPI ex-Food & Energy SA M/M	(Oct)	0.40%	0.20%
11/09 PPI SA M/M	(Oct)	0.50%	0.50%
11/10 CPI ex-Food & Energy SA M/M	(Oct)	0.35%	0.20%
11/10 CPI NSA Y/Y	(Oct)	5.8%	5.4%
11/10 Treasury Budget NSA	(Oct)	-137.0B	-61.5B
11/12 JOLTS Job Openings	(Sep)	10,000K	10,439K
11/12 Michigan Sentiment NSA (Preliminary)	(Nov)	73.9	71.7

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