Peapack Private
Wealth Management

The Weekly
Economic & Market Recap

December 3, 2021

12/3/2021		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	34,580.08	-319.26	-0.91	1.82	12.98	15.38
S&P 500	4,538.43	-56.19	-1.22	1.32	20.83	23.77
NASDAQ	15,085.47	-406.18	-2.62	0.63	17.05	21.88
S&P MidCap 400	2,702.14	-77.27	-2.78	1.39	17.15	22.63

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.59	Euro/Dollar	1.13	-0.31
5-Year	1.14	Dollar/Yen	113.22	0.07
10-Year	1.36	GBP/Dollar	1.32	-0.87
30-Year	1.68	Dollar/Cad	1.28	0.00

Source: Bloomberg/FactSet

What Caught Our Eye This Week

Early in the COVID-19 pandemic, telehealth usage surged as consumers and providers sought ways to safely access and deliver healthcare. Growth in telehealth usage peaked in April 2020 but has since stabilized. As of the summer of 2021, telehealth utilization is 38 times higher than before the pandemic. According to McKinsey & Co., after an initial spike to more than 32% of office visits occurring via telehealth in April 2020, utilization levels have stabilized to between 13% and 17% across all specialties. Furthermore, around 40% of surveyed consumers stated that they are likely to continue using telehealth going forward, an 11% increase from levels seen prior to COVID-19. Several regulatory changes by The Centers for Medicare & Medicaid Services (CMS) have facilitated the growth of telehealth – these include expanding eligibility to all Medicare recipients, not just those in rural areas, and allowing telehealth visits for new patients, not just established patients. CMS also added telehealth coverage for several current procedural terminology (CPT) codes in the final 2021 physician fee schedule. Telehealth appears poised to stay a robust option for care. Continued improvement in access, quality, and affordability of healthcare is good news for consumers.

Economy

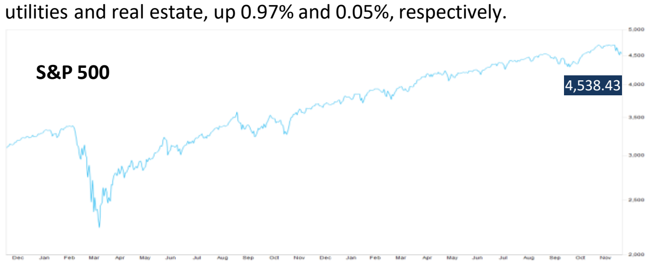
The economic headliner this week was the nonfarm payroll report, which was released on Friday. This report showed payrolls increasing 210,000 in November and the unemployment rate falling from 4.6% to 4.2%. There were also positive revisions made to the prior two months totaling 82,000. The broad U-6 measure of unemployment fell to 7.8% and the labor force participation rate ticked up to 61.8. Average hourly earnings increased 8 cents to $31.03 and the average workweek rose 0.1 hour to 34.8 hours. Examining the different employment sectors, professional and business services added 90,000 jobs, and manufacturing and construction secured 31,000 jobs each. The payroll diffusion index, which measures the number of industries increasing employment last month, decreased to 63%. In other news this week the Conference Board's consumer confidence index declined from 111.6 in October to 109.5 in November. The labor-market differential reached a new all-time high, gaining 3.1 points to 46.9. On Thursday, weekly jobless claims posted an increase of 28,000 to 222,000 during the week ending November 27th. Finally, the ISM manufacturing survey increased from 60.8 in October to 61.1 in November and the new orders index advanced to 61.1.

Fixed Income/Credit Market

The shift in the U.S. Treasury yield curve during November precipitated the mixed performance for the fixed income sectors that we follow. Interest rates from the 5-year tenor out to the 30-year tenor were lower from 2.3 basis points (bps) to 14.1 bps. Meanwhile 1-month T-Bills out to the 3-year Note were anywhere from -0.4 bps to +10 bps. The lead performers were long-term bonds, international bonds, and inflation-linked (TIPS) securities which returned 1.1%, 1.06%, and 0.87%, respectively. The laggards for November were the riskier asset classes, namely – preferred equity, emerging market debt (non-currency hedged) and high yield corporate bonds all with respective negative returns of 2.1%, 1.88%, and 1.02%. Interest rate volatility was a common theme throughout the month according to the MOVE Index (a yield curve weighted index of volatility on 1-month Treasury options) which increased approximately 36%. The Federal Reserve added more fuel to the fire with Jerome Powell's pivot on "transitory" inflation. According to Bloomberg, there is now an 87% probability of one interest rate hike by the June 15, 2022 FOMC meeting.

Equities

Investors' risk-off sentiment resulted in volatile equity markets this week, and all major domestic stock indexes finished with considerable declines. The market is trying to assess how severe the impact of the new Omicron coronavirus variant will be on U.S. corporations and the economy. Investors are anxiously waiting for more information relating to Omicron's transmissibility, virulence, and resistance to vaccines. The S&P 500 rallied on Monday gaining 1.32%, but the index posted its worst two-day performance since October 2020 the following two days. It appeared that the sharp selloff was sparked by comments from Moderna's CEO who said that there will likely be a material drop in effectiveness of current vaccines against the variant. The market weakened further after Federal Reserve Chairman Jerome Powell communicated a more hawkish pivot in monetary policy moving forward. Value stocks outperformed their growth counterparts by 1.01% this week, and small cap stocks severely under-performed large cap stocks. The only two sectors to post gains were utilities and real estate, up 0.97% and 0.05%, respectively.



Our View

Not long after Fed Chairman Jerome Powell was picked by President Biden to lead the Fed for another four years, his view on inflation shifted to a hawkish tone. Shortly after the FOMC announced the start of the asset purchase tapering timeline at its November meeting, the stage is being set for modifications. Moreover, in Powell's testimony to the Senate Banking Committee earlier this week, he mentioned that "at this point the economy is very strong and inflationary pressures are high and it is therefore appropriate in my view to consider wrapping up the taper of our asset purchases perhaps a few months sooner." Powell is not alone at the Fed in his desire to adjust the pace of asset tapering in the near future as Bullard, Waller, Clarida and Bostic have all expressed similar views recently. Powell even went further to say that it was "a good time to retire" the word transitory when referring to the current state of inflation. With private sector wages up 4.6% over the past year and the Fed's preferred gauge of inflation (core PCE) up 4.1% annualized in October, inflation is undoubtedly running hot. It is interesting to note that the economy is still 3.9 million jobs shy of the total achieved back in February of 2020, but the pandemic has seemingly induced structural changes to the labor market and maximum employment may be much different than what it was prior to the pandemic. The Fed has clearly communicated that rate increases will not occur until the asset purchase program is wound down. The market has taken notice as the 2-year U.S. Treasury has increased 13 basis points through the first four trading days of this week. The Fed Funds Futures market is now indicating the first Fed rate increase could come as early as the middle of 2022. Given the current situation, we would not be surprised if the Fed accelerated the asset purchase tapering process at their upcoming meeting in December. There is little doubt that Powell will face challenges in the months ahead given the elevated level of economic uncertainty, but by increasing the pace of the taper, it will give the Fed more flexibility to deal with the latest developments concerning COVID-19 and inflation.

COMING UP NEXT WEEK		Consensus	Prior
12/07 Unit Labor Costs SAAR Q/Q (Final)	(Q3)	8.3%	8.3%
12/07 Productivity SAAR Q/Q (Final)	(Q3)	-4.9%	-5.0%
12/08 JOLTS Job Openings	(Oct)	-	10,438K
12/10 CPI ex-Food & Energy SA M/M	(Nov)	0.40%	0.60%
12/10 CPI ex-Food & Energy NSA Y/Y	(Nov)	4.8%	4.6%
12/10 Michigan Sentiment NSA (Preliminary)	(Dec)	66.5	67.4

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