Peapack Private
Wealth Management
The Weekly
Economic & Market Recap

April 23, 2021

| 4/23/2021 | | Wk | Wk | | YTD | 12 Mos |
|---|---|---|---|---|---|---|
| | | Net | % | Div | % | % |
| **STOCKS** | Close | Change | Change | Yield | Change | Change |
| DJIA | 34,043.49 | -157.18 | -0.46 | 1.75 | 11.23 | 44.77 |
| S&P 500 | 4,180.17 | -5.30 | -0.13 | 1.38 | 11.29 | 49.41 |
| NASDAQ | 14,016.81 | -35.53 | -0.25 | 0.66 | 8.76 | 65.01 |
| S&P MidCap 400 | 2,745.71 | 24.63 | 0.91 | 1.21 | 19.04 | 79.57 |

| **TREASURIES** | Yield | **FOREX** | Price | Wk %Change |
|---|---|---|---|---|
| 2-Year | 0.14 | Euro/Dollar | 1.20 | 0.58 |
| 5-Year | 0.81 | Dollar/Yen | 108.09 | -0.67 |
| 10-Year | 1.56 | GBP/Dollar | 1.38 | 0.14 |
| 30-Year | 2.24 | Dollar/Cad | 1.25 | 0.04 |

Source: Bloomberg/FactSet

**What Caught Our Eye This Week**

President Biden's recently unveiled infrastructure plan budgets $174 billion for electric vehicles (EV). Both the president and automakers see the shift to electric as inevitable. EVs use lithium-ion batteries, which are already in short supply in the United States. The supply issue will not be resolved quickly because it takes a minimum of two years to build a new battery factor to produce lithium-ion batteries. GM has partnered with Korean-based LG Chem to build a new battery factory in Ohio to support their goal of selling only electric vehicles by 2035. Ford and VW are partnering with SK, a Korean company, who is building a factory in Georgia that will have the capacity to electrify 30,000 vehicles per year. Over the next decade, experts project the U.S will have 10 battery factories whereas China will have 140. Even before the EV push, lithium-ion battery production was an Asian-centric industry. Despite having more lithium reserves than China, the U.S. has never built mines and therefore still lags in mining and manufacturing lithium. The need for the EV industry to ramp up its supply chain is critical to ensure the capability to meet its goals.

**Economy**

It was an uneventful week for economic data with the main focus being on housing statistics. On Thursday, existing home sales for March posted a 3.7% decline to 6.110 million units at an annual rate. This is the second consecutive monthly drop for existing home sales (February -6.3%). Low inventories (-28.2% year-over-year (YoY)) and declining affordability continue to weigh on sales. During March, 83% of existing homes sold were on the market for less than a month. The median price of an existing home has jumped 17.2% over the past twelve months. Overall, existing home sales are up 12.3% YoY, and 5.4% above the pre-Covid peak. In other news this week initial jobless claims continue to trend lower, dropping 39,000 to 547,000 during the week ending April 17th. This is a new pandemic low and the four-week moving average is now at 651,000. Finally, on Friday, new single family home sales in March surged 20.7% to 1.021 million units at an annual rate. This impressive data point is in sharp contrast to the alarming 16.2% plunge that was reported in February.

**Fixed Income/Credit Market**

According to FHN Financial, municipal bond issuance has reached $124.8 billion – 25% of which is taxable. Ultra-low yields in the muni bond market have incentivized issuers to side-step advanced refunding rules and capitalize on the cheapness of the taxable sector. On a dollar basis, taxable issuance is up 28% from 2020. Supply and demand technicals in the municipal bond market will be interesting to follow over the next several months given President Biden's proposal to increase capital gains taxes and the potential for taxable bonds similar to Build-America-Bonds (BAB) to fund infrastructure spending. Additionally, there are proposals to increase the Bank Qualified (BQ) limit from $10 million to $30 million. Bloomberg's 30-day visible supply forecast for the entire U.S. is $9.9 billion while the amount of debt expected to retire is $16.6 billion, equating to net supply of negative $6.7 billion. Potentially, increased demand with a continued shift toward more taxable issuance could put further downward pressure on tax-exempt yields. Bloomberg's 10-year AAA municipal benchmark is roughly 0.93%.

**Equities**

It was a choppy week for domestic equities which managed to regain most of their losses due to a strong rally on Friday. After four consecutive weeks of gains, stocks sold off on Monday and Tuesday which some strategists cited as the beginning to a near-term consolidation given bullish investor sentiment and stretched valuations. Furthermore, the market's lackluster reaction to what has been a very strong earnings season fits with thoughts that a lot of good news may already be priced in. According to FactSet, reported earnings have come in 23.6% above estimates on average which would be the largest since FactSet began tracking the metric in 2008. On Thursday, stocks sold off sharply after Bloomberg reported that President Biden will propose an increase in capital gains tax rates from 20% to 39.6% for those earning $1 million or more. The drawdown was short-lived as equities rallied back on Friday which was likely due to eased investor concerns resulting from commentary that both the corporate and capital gains tax rates will ultimately settle at levels below the White House's initial proposal. Real estate was the best performing sector this week gaining 2.03% while energy lagged down 1.77%.


**Our View**

Earnings season is in high gear and generally corporate earnings reports have been very good. With 75 S&P 500 companies having reported, first quarter blended earnings are up 59.2% and 85.3% of companies have beat analysts' estimates according to Zacks' Research. Typically, when over 70% of companies exceed expectations, it can be considered a good earnings quarter. The financial stocks have been an especially strong contributor to earnings. Excluding the financial sector, Q1 earnings growth has been solid but not spectacular with earnings growth of 14.5%. Despite robust earnings reports, the financial sector has been one of the weakest performers in April. The disconnect between earnings and recent stock performance can be explained by the fact that financial stocks were overbought going into Q1 earnings season. The sector on a rolling 12-month basis is up over 60%. The stock of almost every financial company is trading above its 50-day moving average and the sector in aggregate was trading 25% above its 200-day moving average. When stocks get extended and valuations are elevated, stocks can be vulnerable to price corrections or a stalling of forward momentum. The overall market also seems to be somewhat overbought. The S&P 500 is 15% above its 200-day moving average and the relative strength index (RSI) recently crossed the overbought level of 70. In the past, when the RSI becomes extended, the equity market tends to sell off 5% to 10%. The timing and catalyst are very hard to predict (many pundits have been predicting a market pullback for months now). The market did face selling pressure earlier this week on a Bloomberg report that the White House would be proposing to nearly double the capital gains tax rates for wealthy individuals to 39.6%. There are other potential triggers, such as a deterioration of the geopolitical environment or new virulent strain of covid-19, that could cause investors to reassess portfolio risk. A correction given current overbought conditions and the high valuation levels for risk assets would not be a surprise. If we do get a period of weakness ahead, investors should remain focused on a solid fundamental economic backdrop and keep their long-term investment objectives in mind.

| COMING UP NEXT WEEK | | Consensus | Prior |
|---|---|---|---|
| 04/26 Durable Orders SA M/M (Preliminary) | (Mar) | 2.3% | -1.2% |
| 04/27 Consumer Confidence | (Apr) | 112.0 | 109.7 |
| 04/30 Personal Consumption Expenditure SA M/M | (Mar) | 4.0% | -1.0% |
| 04/30 Personal Income SA M/M | (Mar) | 20.3% | -7.1% |
| 04/30 Chicago PMI SA | (Apr) | 64.0 | 66.3 |
| 04/30 Michigan Sentiment NSA (Final) | (Apr) | 87.5 | 86.5 |

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