Peapack Private
Wealth Management
The Weekly
Economic & Market Recap

July 31, 2020

7/31/2020		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	26,428.32	-41.57	-0.16	2.46	-7.39	-2.83
S&P 500	3,271.12	55.49	1.73	1.85	1.25	8.56
NASDAQ	10,745.27	382.10	3.69	0.80	19.76	29.87
S&P MidCap 400	1,863.91	13.97	0.76	1.91	-9.65	-6.19

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.11	Euro/Dollar	1.18	1.72
5-Year	0.21	Dollar/Yen	105.73	-0.12
10-Year	0.53	GBP/Dollar	1.31	2.64
30-Year	1.20	Dollar/Cad	1.34	-0.06

Source: Bloomberg/FactSet

What Caught Our Eye This Week

The Covid-19 pandemic has produced surprising shortages as consumers have adjusted their purchasing behavior. With toilet paper now less challenging to find, the latest global supply chain disruption is a scarcity of aluminum cans. The transition of beverage consumption from restaurants to homes, accelerating growth in certain drinks (hard seltzer and sparkling water), and shifting market dynamics (the brewing industry estimates that cans as a percentage of total sales have gone from 50% to 60% over the last 9 years) have combined to increase demand for cans. The shortage is not caused by a deficiency of raw material, but instead by a lack of production capacity. U.S. can producers are adding new lines and building new facilities though most will not be ready for at least a year. U.S. manufacturers short-term solution has been to import billions of empty cans from overseas. Turnaround time for shrink-sleeve cans (plastic labels shrink-wrapped onto containers) has increased from 4-5 days to 4-5 weeks, and the printed cans have doubled in price. As soda and beer manufacturers face difficulty meeting demand, they will focus less on smaller, slower-moving brands or new entrants to favor best-selling brands. Your favorite canned beverage may be missing from the shelf for a little while.

Economy

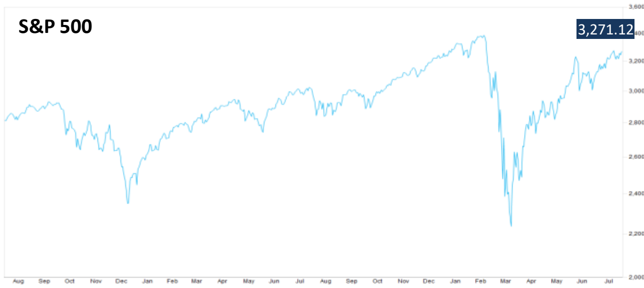
The economic highlight or lowlight this week was the first report on second quarter real GDP. The value of all goods and services produced across the economy fell at a seasonally and inflation-adjusted 32.9% in the second quarter. Consumer spending on services led the way, plunging 43.5%, while homebuilding dropped 38.7%. Business fixed investment declined by 27% as both imports and exports plummeted. The only positive metric was real disposable income, which was heavily influenced by government transfer payments, surged 44.9%. There will be two more reports on Q2 GDP (August 24th & September 30th). In other news this week, orders for durable goods increased by 7.3% in June, which was better than expectations. More importantly "core" capital goods increased by 3.3% and "core" capital shipments advanced by 3.4%. Overall the headline figure is still 16% below the February level. On Tuesday, the Conference Board Consumer Confidence Index dropped from 98.3 in June to 92.6 in July and the labor market differential crossed into positive territory, posting a +1.3 in July. Finally, on Friday, personal income for June dropped by 1.1% while personal consumption increased by 5.2%.

Fixed Income/Credit Market

On Wednesday, Federal Reserve Chair Jerome Powell delivered a dovish message regarding the economic recovery from the coronavirus. While the fixed income markets were not surprised by Mr. Powell's comments, the reaction before and after the meeting seemed to justify a move toward record low yields. The 5-year (5Y) U.S. Treasury (UST) hit several record lows during intraday trading and closed Wednesday at 0.25% – the upper bound of the Fed funds target range of 0% to 0.25%. Week-over-week, the 5Y UST decreased 6.6 basis points (bps) and closed at 0.21%. The spread between the 5Y and 30Y U.S. Treasuries (5y/30Y), which is a gauge often used by bond traders to implement curve flattening or steepening strategies, is currently trading at 98.2 bps, down from a one year high of 122.2 bps on June 4th. The spread's one-year average is 78.3 bps. If the Fed adjusts its asset purchases to longer-dated securities to put a lid on interest rates, we could see a mean reversion for the 5Y/30Y spread.

Equities

It was a choppy week of trading in equities, but the S&P 500 was able to finish in positive territory. One of the major overhangs for the market is the challenges Congress faces in trying to get a deal on a fifth coronavirus relief bill. Republicans have targeted $1T in new spending, while House Democrats have already passed a $3T+ bill. Furthermore, a resurgence in new coronavirus cases continues to be a headwind, but there has been some more optimistic commentary with statistics showing the epidemic is plateauing in some of the newer hotspots. In other news, the CEOs of Amazon, Apple, Facebook and Google appeared before the House Judiciary Committee on Wednesday to address the continued increase in regulatory scrutiny surrounding big technology companies. It did not appear that the market was overly concerned with the hearing given the S&P 500 finished the day +1.24%. Most of the strength in stocks this week can be largely attributable to second quarter earnings. The average earnings beat has been 13.2% above the consensus expectation, substantially above the historic average of 3.3%.



Our View

The news flow and trading activity generally slow as we get deeper into the summer. That was not the case this week as investors had a myriad of new data points to analyze. The Federal Reserve's Open Market Committee (FOMC), which sets the rate on the Fed funds, concluded its July meeting and, as expected, did not change its policy. Notably, the Fed also reiterated its commitment to using all tools necessary to support the economy. On the economic front, the Commerce Department reported second-quarter GDP, and it too was consistent with expectations. The economy posted its sharpest downturn on record, which was broad base, and can only be characterized as horrendous. Consumer spending was especially weak as services consumption fell 43.5% during the period. However, there was nothing in the report to dissuade us of our opinion that the halting economic restart will lead to a meaningful rebound in the consumer side of the economy in the third quarter. The surprise for investors seems to be stronger than expected earnings. With 185 companies reporting second-quarter earnings this past week, now over 62% of companies in the S&P 500 have reported with over 80% exceeding analyst's expectations. The number of companies beating expectations in percentage terms is comfortably above historical norms, but it seems stronger since several large bellwether companies had blowout quarters (AAPL, AMZN, PYPL, GOOG, FB). According to FactSet, 2Q earnings for the S&P 500 are estimated to decline by 43.4%, with revenue dropping 10.0%. Earnings will be at the worst level since 4Q 2010. The apparent stabilization of economic activity and the surprising earnings season leads us to believe that the earnings picture should brighten from here. Investors need to remember, however, that the magnitude of the earnings bounce next year is dependent on the virus' impact on the strength and shape of the economic recovery.

COMING UP NEXT WEEK		Consensus	Prior
08/03 ISM Manufacturing SA	(Jul)	53.6	52.6
08/04 Durable Orders SA M/M (Final)	(Jun)	5.0%	7.3%
08/05 ISM Non-Manufacturing SA	(Jul)	55.8	57.1
08/06 Initial Claims SA	(08/01)	1,380K	1,434K
08/07 Nonfarm Payrolls SA	(Jul)	2,000K	4,800K
08/07 Unemployment Rate	(Jul)	10.5%	11.1%

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