Peapack Private Wealth Management

March 6, 2020

3/6/2020		Wk Net	Wk %	Div	YTD %	12 Mos %
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	25,864.78	455.42	1.79	2.51	-9.37	0.23
S&P 500	2,972.37	18.15	0.61	2.03	-8.00	6.55
NASDAQ	8,575.62	8.25	0.10	1.01	-4.42	13.19
S&P MidCap 400	1,797.79	-16.21	-0.89	2.00	-12.86	-5.76

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.52	Euro/Dollar	1.13	2.97
5-Year	0.61	Dollar/Yen	105.35	-2.34
10-Year	0.77	GBP/Dollar	1.30	2.04
30-Year	1.29	Dollar/Cad	1.34	0.03

Source: Bloomberg/FactSet

What Caught Our Eye This Week

A week ago, there did not seem to be a competitive Democratic race as Senator Sanders appeared to command a clear path to the necessary number of delegates required for the nomination. Joe Biden's South Carolina win followed by a strong Super Tuesday performance has resulted in a two-candidate race. Along with (or perhaps because of) the resurrection of Mr. Biden, managed care stocks had their best day of the year on Wednesday. These stocks had drastically underperformed other health care stocks as well as the broader market for the last year. Mr. Sanders' proposed Medicare-for-All policy was hurting managed care companies even though it could only be enacted if the Democrats were to control both the House and the Senate. Even without passing Medicare-for-All, a win by Mr. Sanders would hurt health insurers' growth and margins through additional regulatory burden. With the resurgence of Mr. Biden, the managed care stocks can breathe a sigh of relief. Health care reform has been a contentious political topic in the U.S. for many years and is now shaping up to play a major role in both the Democratic primary and the Presidential election.

Economy

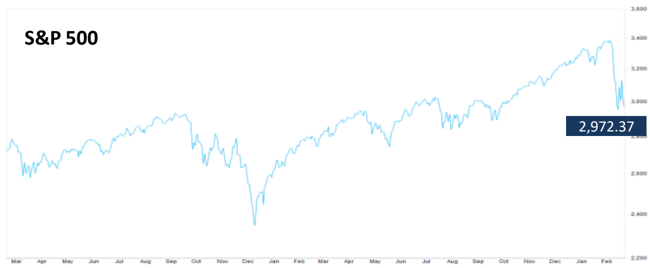
The most anticipated report this week was the nonfarm payroll report, which was released on Friday. This report showed payrolls increasing by 273,000 in February, which was significantly more than consensus estimates (175,000). The unemployment rate declined to 3.5% from 3.6%, and the U-6 measure of unemployment increased to 7.0%. The labor force participation rate remained at 63.4%, and there were positive revisions of 87,000 jobs made to the January and December reports. Average hourly earnings rose by 0.3% to $28.52 and the year-over-year gain is now at 3.0%. Examining the different employment sectors, construction added 42,000 jobs, healthcare gained 57,000, and food services added 53,000. In other news this week the ISM manufacturing survey decreased to 50.1 in February, and the new orders index declined to 49.8. This survey also showed 14 of 18 industries growing. On Wednesday, the ISM nonmanufacturing survey posted a gain to 57.2 in February, which is a 15-month high. Overall 16 industries reported growth, while only two showed decline.

Fixed Income/Credit Market

Week-over-week, yields across the U.S. Treasury curve have dropped precipitously due to the uncertainties associated with the global spread of the coronavirus and its long-term economic impact. On Tuesday, the FOMC cut the Fed funds rate by 50 basis points (bps) to a target range of 1.00-1.25% in an attempt to quell investors' fears of diminishing long-term global growth and inflation expectations. However, the timing of the rate cut seemed to have the opposite impact on investors who were left wondering if the FOMC was privy to more knowledge about the lasting effects of the virus. Since the close on Tuesday, rates have decreased as much as 46.8 bps at the 3-month tenor which steepened the yield curve between the 3-month and 10-year Treasuries 23.5 bps to 30.3 bps. Conversely, the spread between the benchmark 2-year and 10-year tenors flattened 3.7 bps to 26.3 bps. The 2-year and 10-year Treasuries ended Friday at approximately 0.51% and 0.77%, respectively.

Equities

Last week's volatility carried into the first week of March with the VIX reaching its highest level in a decade, approximately 50. Stocks began the week with incredible strength rallying approximately 4.6% on Monday. Stocks opened lower on Tuesday morning before rallying 1.5% mid-day following the Fed's emergency announcement to cut rate by 0.5%. The market reversed shortly after and declined 2.8% for the day. The risk-on trade was back Wednesday as investors focused on political news, as Joe Biden won Super Tuesday Democratic primaries in several states. Joe Biden received Bloomberg's endorsement after he dropped out of the race helping slow Sanders' momentum. The S&P posted a gain of approximately 4.2% on Wednesday. The week closed in the green despite Thursday and Friday's sell off posting back to back losses of 3.4% and 1.7%, respectively. The selloff was triggered by California announcing a state of emergency due to the coronavirus. Despite positive jobs numbers on Friday, investors continued to sell out of equities. For the week, defensive sectors such as utilities and consumer staples were the strongest performers gaining 8.0% and 6.3%, respectively. Energy posted the worst performance down 7.2% as oil continues to fall.



Our View

Extreme volatility continued to grip financial markets last week. Apart from the ongoing spread of the Covid-19 virus, the most notable development was that the Fed cut interest rates in between FOMC meetings for the first time since the financial crisis. The timing of the cut was surprising, but the fact that the Fed felt the situation warranted a 50-basis point cut was striking as well. The Fed cut its key Fed Funds rate to a range of 1% to 1.25%. It was highly unusual for the Fed to take such bold action, but it is not unprecedented. The Fed also moved aggressively after the 9/11 attacks, the 2001 tech stock bubble, the Russian financial crisis and the collapse of Long Term Capital in 1998. The pre-emptive rate cut is intended to provide insurance against future economic weakness. Economic data continues to be relatively strong as evidenced by February's nonfarm payroll report. The domestic economy's current momentum and the Fed's aggressive rate move failed to have much impact on the long end of the yield curve. In fact, as investors attempted to lower portfolio risk in the face of economic uncertainty caused by the coronavirus' impact, the 10-year U.S. Treasury reached an all-time low yield of 0.66% this week. Perhaps more astoundingly the two-year Treasury yield was 1.3% just two weeks ago, but fell to 0.39% with the decline in yields over the last two weeks. The bond market is suggesting additional rate cuts and more financial market volatility ahead. The Fed Fund futures is predicting another 50-basis point cut at the March FOMC meeting. Since much of the expected economic softness caused by the virus is due to a supply shock, the Fed's rate cut will be pro-viding only a modest economic lift. Fiscal stimulus in the form of a credit facility for businesses affected by the transitory impact of the virus would be more efficacious and would bring confidence to financial markets.

COMING UP NEXT WEEK		**Est.**
03/11 CPI ex-Food & Energy SA M/M	(Feb)	0.20%
03/11 CPI SA M/M	(Feb)	0.0%
03/12 PPI ex-Food & Energy SA M/M	(Feb)	0.15%
03/12 PPI SA M/M	(Feb)	0.0%
03/13 Michigan Sentiment NSA (Preliminary)	(Mar)	96.0

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