PEAPACK PRIVATE
Wealth Management

The Weekly
Economic & Market Recap

November 13, 2020

11/13/2020		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	29,479.81	1156.41	4.08	2.09	3.30	6.46
S&P 500	3,585.15	75.71	2.16	1.67	10.97	15.96
NASDAQ	11,829.29	-65.94	-0.55	0.74	31.84	39.40
S&P MidCap 400	2,113.26	86.31	4.26	1.59	2.44	6.14

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.18	Euro/Dollar	1.18	-0.46
5-Year	0.41	Dollar/Yen	104.64	1.29
10-Year	0.89	GBP/Dollar	1.32	0.13
30-Year	1.65	Dollar/Cad	1.32	1.02

Source: Bloomberg/FactSet

What Caught Our Eye This Week

Central Banks around the world have been considering introducing their own digital currency. Though several Central Banks (including the U.S.) have not taken a stance on whether they should issue digital currency, they are looking into the feasibility. China already has a pilot program for its electronic payment system up and running in four cities. Federal Reserve Chairman Powell has cautioned that much work remains to be done before they would launch a digital dollar. The Federal Reserve has stated that it would collaborate with Massachusetts Institute of Technology to investigate opportunities and limitations for digital forms of central bank money. It is important that a central bank digital currency (CBDC) be a trusted, convenient and widely available version of cash. CBDC has the potential to become an easier, faster and cheaper way to transfer money. Digital currencies issued by central banks would provide good data on the movement of money throughout the economy and would likely cut down on money-laundering, fraud and terrorist-funding activity. But, in addition to concerns about privacy and digital surveillance, a key question that needs to be addressed is how to avoid the negative impact to commercial banks.

Economy

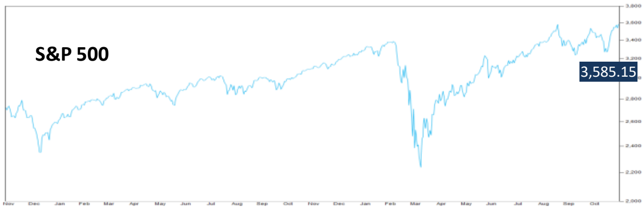
This week the economic data centered around inflation statistics with the release of the consumer price index (CPI) and the producer price index (PPI). On Thursday, the CPI came in below expectations with no gain or loss in the month of October. The "core" CPI was also unchanged and is now up 1.6% year-over-year. The CPI was up 3.5% at an annualized rate over the past six months, and the rate of change during June, July, August and September was the fastest since 2008. The PPI was released on Friday and posted a 0.3% advance in October while the "core" PPI increased by 0.1%. Over the past twelve months, the PPI is up 0.5%, and the "core" PPI is up 1.1%. Food prices led the headline figure, gaining 2.4% during the month. Earlier in the week the JOLTS report (job openings and labor turnover survey) showed 1.333 million layoffs in September, which is a new all-time low (going back to December 2000). Total job openings are now at 6.4 million, the "quits" rate was little changed at 2.1%, and over the past twelve months there is now a net employment loss of 6.0 million.

Fixed Income/Credit Market

Many market participants were theorizing that a Biden win would push the U.S. Treasury yield curve steeper as the economic recovery presses on. Despite the Federal Reserve pinning short-term interest rates near zero, the assumption is that additional economic stimulus will increase growth and inflation – effectively putting upward pressure on longer-term interest rates. The question is, just how high will long-term yields rise if that theory comes to fruition? According to Bloomberg's forward curve matrix, the U.S. 10-year Treasury is forecasted to increase just approximately 19 basis points (bps) to 1.08% over a 1-year horizon. Over a two 2-year horizon the projected increase is roughly 37 bps to 1.26% which is 4 bps below a pre-pandemic historic low of about 1.3%. If the forward curve predictions are accurate, the total return on the 10-year Treasury one year forward is -0.06%, whereas two years forward, investors would receive a positive return of 0.09%. This week, the benchmark 10-year Note increased 7.2 bps to 0.89%.

Equities

The S&P 500 finished Friday at an all-time closing high and has posted back-to-back weeks of strong gains. The bullish narrative was bolstered on Monday after Pfizer and BioNTech announced that their coronavirus vaccine candidate demonstrated an efficacy rate above 90% with limited safety concerns. The companies said up to 50 million doses will be available globally in 2020 and another 1.3 billion in 2021. This news sparked a substantial rotation within equities which, according to FactSet, saw value and cyclical stocks outperform growth and momentum stocks by the most in a single session since 2000 by some measures. U.S. presidential election clarity has also helped boost equities; however, some market headwinds persist. Coronavirus cases continue to rise and set new records resulting in new lockdown restrictions across the country. Furthermore, investors have concerns over the potential for a scaled-down fiscal stimulus package considering Senate Republicans are now looking for a bill worth around $500 billion while House Democrats continue to push for a bill in excess of $2 trillion. The energy sector was the clear outperformer this week gaining 16.45% while the consumer discretionary sector lagged posting a 1.10% decline.



Our View

Risk markets began the week on a rather euphoric note based primarily on the news that major progress is being made on the development and approval of a vaccine, which could eventually resolve the health crisis caused by Covid-19. Moreover, the MSCI All Country World Index increased in market capitalization by roughly $1 trillion on Monday alone and was led primarily by the cyclical sectors of the economy that have suffered the most throughout the pandemic. The press release by Pfizer showed that the new vaccine it is developing with BioNTech SE helped prevent greater than 90% of symptomatic infections, which comes at an opportune time now that Covid-19 cases are making a massive resurgence globally. With roughly 200 vaccine development projects in over 30 countries taking place at the current juncture, a tremendous amount of resources is being dedicated to this extremely important cause. The pace at which the vaccine is progressing is quite impressive as historically it has taken an average of 11 years for a vaccine to reach the finish line with a failure rate of roughly 94%. Just this week the Fed released its Financial Stability Report, which stated that uncertainty remains elevated and "given the generally high level of leverage in the non-financial business sector, prolonged weak profits could trigger financial stress and defaults." The last thing the Fed wants is for the health crisis to evolve into a financial crisis and therefore, the approval of a vaccine is the most important factor driving markets currently. Even with the encouraging vaccine news released this week, a resumption to pre-pandemic life will still take time. Moreover, Pfizer and BioNTech's phase three trials are not yet complete and it is unknown how long immunity will last and whether it can be utilized by all segments of the population. Also, storage may become an issue as gene-based vaccines require storage at extremely cold temperatures, which could preclude its usage in certain areas. At this point if everything continues in a positive direction, a large-scale rollout of the above-mentioned vaccine might come in the first half of 2021 and although the light is brighter at the end of the tunnel, caution is still warranted.

COMING UP NEXT WEEK		**Consensus**	**Prior**
11/17 Retail Sales SA M/M	(Oct)	0.50%	1.9%
11/17 Industrial Production SA M/M	(Oct)	1.0%	-0.60%
11/18 Housing Starts SAAR	(Oct)	1,470K	1,415K
11/19 Existing Home Sales SAAR	(Oct)	6,435K	6,540K
11/19 Leading Indicators SA M/M	(Oct)	0.40%	0.70%

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