PEAPACK PRIVATE
Wealth Management

The Weekly
Economic & Market Recap

September 17, 2021

9/17/2021		Wk Net	Wk %	Div	YTD %	12 Mos %
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	34,584.88	-22.84	-0.07	1.78	13.00	23.95
S&P 500	4,432.99	-25.59	-0.57	1.34	18.02	32.05
NASDAQ	15,043.97	-71.53	-0.47	0.64	16.73	37.89
S&P MidCap 400	2,678.06	-8.47	-0.32	1.34	16.10	41.84

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.22	Euro/Dollar	1.17	-0.82
5-Year	0.86	Dollar/Yen	109.97	0.12
10-Year	1.37	GBP/Dollar	1.37	-0.78
30-Year	1.91	Dollar/Cad	1.28	1.03

Source: Bloomberg/FactSet

What Caught Our Eye This Week

Goldman Sachs announced earlier this week that it would acquire GreenSky for $2.2 billion, the most recent of several acquisitions within the specialty lending finance industry often referred to as "Buy Now, Pay Later" (BNPL). BNPL companies seek to help consumers who do not qualify for a credit card spread out the payments for large, one-time purchases over weeks or months. The interest rates charged are usually lower than financing the purchase on a credit card. Payments can be made in multiple installments while receiving the goods or services immediately. BNPL companies are technology platforms connecting consumers who need help covering a major purchase with merchants like big-box retailers Home Depot or Walmart, eager to acquire new customers and increase sales. BNPL, however, does have costs and risks. Users may face high fees and sometimes locked accounts when they miss payments. The underwriting standards are superficial and less stringent than those of the credit card issuers. These businesses may more closely resemble a boom-and-bust lender than a growing software company.

Economy

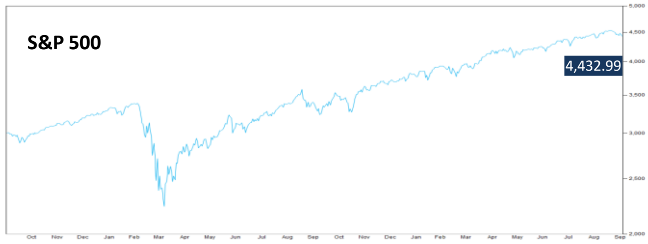
On Tuesday, the Consumer Price Index (CPI) showed an increase in August but at the slowest pace since January, rising 0.3% month-over-month (MoM) which was slightly below the consensus expected +0.4%. The core CPI, which excludes food and energy prices, increased 0.1% MoM which was also below expectations of +0.3%. These prices were held down by declines in airfares (-9.1%), hotels/motels (-3.3%), and used cars and trucks (-1.5%). On Wednesday, industrial production showed an increase of 0.4% in August versus a consensus expected gain of 0.5%. Many believe the less than expected number was largely the result of the late in the month plant shut-downs related to Hurricane Ida. The Federal Reserve estimates that without those storm-related headwinds, the overall index would have risen 0.7% for the month. In other news, retail sales increased 0.7% in August which was well above expectations for a decline of 0.7%. Furthermore, overall sales are up a very strong 15.1% from a year ago. Ten of thirteen major categories rose in August with non-store retailers, general merchandise stores, and food and beverage stores leading the way.

Fixed Income/Credit Market

There were a bevy of economic data releases this week that likely created more uncertainty rather than clarity for the future direction of U.S. Treasury (UST) yields. In hindsight, the biggest surprise was Core CPI which came in at 4% year-over-year, its lowest print since February. The CPI data sparked a bull flattening (long-term rates drop sharper than short-term rates) in UST yields, likely a result of market participants buying into the Fed's "transitory inflation" narrative. If quantitative easing (QE) were to extend farther out, downward pressure on UST yields could continue. Counter to that point, there were pundits that were surprised by the move lower in yields post-CPI, arguing that if the reflation trade has been proved transitory then any urgency for the Fed to move off the zero-interest lower bound (ZIRP) has been reduced. Those arguing for that case would have suspected UST yields on tenors five years and in to drop faster than long-term yields (a bull steepening). The 10-year Note yield ended Friday up 2.1 basis points (bps) week-over-week at roughly 1.36%.

Equities

For the second week in a row, major indices posted weekly losses as mixed economic data and the ongoing spread of the Delta variant weighed on stocks. The S&P 500 fell -0.57% for the week, while the Dow and Nasdaq fell -0.07% and -0.47%, respectively. Discussions of "stagflation" have been making appearances in recent headlines as the combination of supply chain issues and rising input prices appear to be creating headwinds that are proving difficult to overcome. On the sector front, weakness in semis and services dragged down names in the information technology space, while declines in industrial metals and global miners affected materials – the worst performing sector on the week falling -3.22%. Energy, thanks to gains in refiners, was the week's best performing sector rising 3.31%. Consumer discretionary also rose 0.54%. Value outperformed growth by 19 basis points, but both areas ultimately posted weekly losses.



Our View

The upcoming month will be a critical time in Washington as several major fiscal issues need to be addressed. One of the issues we are paying particularly close attention to is the federal debt ceiling debate. The debt ceiling was created over a century ago to make it easier for Congress to fund World War I by grouping bonds into categories as opposed to separately approving each bond individually. Moreover, the first aggregate debt limit was established in 1939 in preparation for the substantial spending that would come. Over the years, the debt limit has been raised well over 70 times, however, increasing the debt ceiling recently has become more contentious and fraught with partisan differences. Congress suspended the debt ceiling back in August of 2019 for two years, which meant that the debt ceiling was reestablished on August 1st of this year at a level of approximately $28.4 trillion. Treasury Secretary, Janet Yellen, has been employing extraordinary measures by preserving cash on hand to be directed toward the most pertinent obligations. However, Yellen has recently made it public that the extraordinary measures could be exhausted sometime in October. Congress needs to either raise the debt ceiling or suspend it for a period and the longer it takes to do so, the closer the U.S. government gets to partially shutting down and delaying payments. Back in 2011, the debt ceiling was not raised until a few days before a potential default, which caused S&P to downgrade U.S. debt for the first time in history. Failure to address the debt ceiling soon will negatively impact markets, stress currently calm financial conditions and lead to elevated volatility. Due to the slim majority Democrats have in Congress, they have the ability to raise the debt ceiling through a budget reconciliation bill that only needs a simple majority to pass, but they are reluctant to do so without Republican support. Thus far, the vast majority of Republicans have signed a pledge to not support an increase in the debt ceiling. Ultimately, it is our belief that the debt ceiling issue will be resolved before the extraordinary measures are exhausted, but the longer it takes to reach an agreement the higher market volatility will rise.

COMING UP NEXT WEEK		Consensus	Prior
09/21 Housing Starts SAAR	(Aug)	1,548K	1,534K
09/22 Fed Funds Target Upper Bound	-	0.25%	0.25%
09/23 Markit PMI Manufacturing SA (Preliminary)	(Sep)	60.3	61.1
09/23 Markit PMI Services SA (Preliminary)	(Sep)	54.7	55.1
09/23 Leading Indicators SA M/M	(Aug)	0.50%	0.90%
09/24 New Home Sales SAAR	(Aug)	697.5K	708.0K

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