PEAPACK PRIVATE
Wealth Management

The Weekly
Economic & Market Recap

January 15, 2021

1/15/2021		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	30,814.26	-283.71	-0.91	1.96	0.68	6.48
S&P 500	3,768.25	-56.43	-1.48	1.56	0.32	14.78
NASDAQ	12,998.50	-203.48	-1.54	0.76	0.86	40.50
S&P MidCap 400	2,424.03	7.66	0.32	1.41	5.09	16.93

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.12	Euro/Dollar	1.21	-1.33
5-Year	0.45	Dollar/Yen	103.88	0.08
10-Year	1.09	GBP/Dollar	1.36	-0.09
30-Year	1.84	Dollar/Cad	1.28	0.55

Source: Bloomberg/FactSet

What Caught Our Eye This Week

2020 saw rapid advancement and adoption of telehealth due to the COVID-19 pandemic. According to CDC reports, telehealth utilization spiked as much as 154% in late March compared to the same period in 2019. While usage has moderated, it is clear telehealth is now an instrumental part of healthcare delivery. According to the Healthcare Information and Management Systems Society, a survey late last year revealed over 90% of respondents plan to continue to increase telehealth access, and most organizations expect telehealth volume to increase post pandemic – by an average of 53%. Patient demand has been a critical driver in telehealth growth and will be a key driver in 2021. Patients will expect streamlined access with their telehealth experience embedded in their patient portal or accessible via a secure text link. In the future, it will be essential for telehealth video functionality to be embedded in the electronic health records (EHR) for it to reach its full efficiency and provider adoption. Like patients, physicians seek ease of use, and coding and billing will need integrated solutions to ensure accuracy and timeliness. This may mean migrating telehealth platforms, additional builds in the EHR, or both. Consultants in the field anticipate mergers and acquisitions in this area to be strong in 2021.

Economy

The most anticipated report this week was the retail sales report, which was released on Friday. Retail sales decreased 0.7% in December, disappointing relative to consensus expectations. In addition, both the November and October figures were revised lower. This is further evidence that virus related developments have been weighing on consumer behavior. The “control” category, which excludes food service, autos, gas and building materials declined 1.9%. This is the third straight monthly decline for the “control” group. Food and drink services decreased by 4.5% in December on top of a 3.6% drop in November. In other news this week the consumer price index (CPI) posted an increase of 0.4% in December and is now up 1.4% year-over-year. The “core” CPI advanced by 0.09% and is now up 1.6% over the past twelve months. Finally, on Friday, the producer price index posted a 0.3% increase in December, and the “core” PPI gained 0.1%. Energy prices led the way, surging 5.0%.

Fixed Income/Credit Market

Following the Great Financial Crisis, there was a concerted effort by municipalities across the U.S. to shore up budgets and protect the industry from the next financial catastrophe. Thus far, the broader muni market during the Covid-19 pandemic has proven to be quite resilient. Meanwhile, since January 2008, corporate balance sheets have become highly levered. Historically low interest rates and global central bank accommodation has facilitated record borrowing in the corporate sector, particularly farther out on the yield curve. Extended duration has driven the amount of yield earned per unit of duration to record lows. The Bloomberg Barclays U.S. Corporate Bond Index has a yield to worst (YTW) of 1.87% and an option adjusted duration (OAD) of 8.74 which equates to 21.4 basis points (bps) in yield per unit of risk. Similarly, the Bloomberg Barclays Municipal Bond Index pays investors 20.7 bps of yield per unit of duration, however, when adjusting for the federal tax shield, the yield per unit of risk increases to 35 bps at the highest marginal tax rate. Careful selection of municipal bonds can provide investors with a relative value story.

Equities

The S&P 500 finished the week lower after the major indexes posted solid gains in the first week of 2021. The weakness comes amid growing concerns about stretched valuations following the recent rally in stocks. While the concerning news coming out of Washington continues to be largely ignored, the market appears to be most focused on the vaccine rollout, fiscal stimulus, and the next round of corporate earnings. On Thursday, President-elect Biden outlined a $1.9 trillion economic package which has elements that would likely gain favor in the Senate, but other parts are expected to spur partisan conflict. Some highlights of the package include $1 trillion to U.S. households via an additional $1,400 stimulus check and a 33% increase in supplemental unemployment benefits. The new amount cited is $400 per week and includes an extension through September. In other news, fourth quarter corporate earnings season kicked off on Friday with major banks such as JPMorgan, Wells Fargo, and Citigroup reporting. According to FactSet, S&P 500 earnings are expected to decline 8.8% year-over-year in Q4 2020. The recent cyclical rotation continued to play out this week as evidenced by small-cap companies outperforming large-cap and value stocks outperforming growth.

Our View

Back in June of 2016, the United Kingdom (U.K.) voted narrowly to leave the European Union (EU) after more than four decades of membership. The path that followed was tumultuous to say the least as negotiations took more than four years and caused two general elections. A deal was struck just days before the deadline at the end of 2020 and negated a no-deal Brexit, which had the potential to cause considerable economic pain as the two sides would have transitioned to World Trade Organization rules (WTO). Moreover, WTO rules would have primarily entailed new tariffs on trade and prohibitive custom controls. However, with an agreement in place, the U.K. can now trade with the EU free of tariffs and quotas, which is important as the EU accounts for over 45% of the U.K.’s goods exports. Although no new taxes will be introduced at this point, there will be border paperwork to fill out which could potentially cause some economic inefficiencies. The deal has also restricted the free movement of people between the U.K. and EU to a degree and temporary visas must be obtained for employment purposes if one wishes to stay outside their country for more than 90 days in a six-month period. But the new trade deal failed to address numerous important issues pertaining to the service side of the economy, which accounts for the majority of the U.K.’s economic activity and includes financial services. In order for the U.K. to export financial services to the EU, European regulators must decide on whether the regulations in the U.K. are on par with its own rules and will not potentially harm consumers. Due to the lack of clarity, many financial firms have already moved some of their operations to the EU. On a different note, the main upside for the U.K. is that it may now embark on the creation of new trade deals with non-EU nations, but the path forward will have to be navigated with caution and is far from complete.

COMING UP NEXT WEEK		Consensus	Prior
01/20 NAHB Housing Market Index SA	(Jan)	85.5	86.0
01/21 Building Permits SAAR (Preliminary)	(Dec)	1,619K	1,635K
01/21 Housing Starts SAAR	(Dec)	1,555K	1,547K
01/21 Initial Claims SA	(01/16)	803.0K	965.0K
01/22 Existing Home Sales SAAR	(Dec)	6,400K	6,690K

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