Peapack Private
Wealth Management

The Weekly
Economic & Market Recap

January 22, 2021

1/22/2021		Wk	Wk		YTD	12 Mos
		Net	%	Div	%	%
STOCKS	Close	Change	Change	Yield	Change	Change
DJIA	30,996.98	182.72	0.59	1.95	1.28	6.17
S&P 500	3,841.47	73.22	1.94	1.53	2.27	15.68
NASDAQ	13,543.06	544.56	4.19	0.73	5.08	44.52
S&P MidCap 400	2,462.53	38.50	1.59	1.39	6.76	18.22

TREASURIES	Yield	**FOREX**	Price	Wk %Change
2-Year	0.12	Euro/Dollar	1.22	0.66
5-Year	0.43	Dollar/Yen	103.80	-0.07
10-Year	1.09	GBP/Dollar	1.37	0.67
30-Year	1.85	Dollar/Cad	1.27	-0.33

Source: Bloomberg/FactSet

What Caught Our Eye This Week

2020 was a great year for gold. The metal had its best year in a decade rising 24.4% and beating the S&P 500. Historically, the case for gold has been as a hedge against inflation but recently inflation has not been much of a concern. Perhaps more important is the relationship with the U.S. dollar. The two have shown an inverse relationship so when the US dollar rises in value, gold prices fall and vice versa. There are several factors that could propel gold higher. How gold performs in 2021 will depend on the strength of the recovery. Additional stimulus by the new administration should boost the job market and the economy but could also cause inflation to rise and the US dollar to fall. Also crucial to investors' outlook for gold is the direction of bond yields. With the real yield (adjusted for inflation) on the benchmark 10-year Treasury note below 1%, the cost of holding gold which does not provide any yield at all is relatively low. Finally, with about 40% of demand for gold tied to jewelry sales and some industrial uses as well, supply and demand factors also play a role. Given the strong performance last year, most (commodities) analysts do not expect to see the same return for gold in 2021 after accounting for all of the diverse factors that affect the price.

Economy

This week the economic data centered around housing statistics with mixed news from three reports. First on Wednesday the NAHB survey (National Association of Home Builders) dropped from 86 in December to 83 in January, missing expectations. Over the past two months this metric has lost 7 points. On Thursday monthly housing starts posted a 5.8% rise to 1.699 million units at an annual rate in December. Single-family starts and permits increased 12% and 7.8%, respectively. The positive housing data continued on Friday with existing home sales registering a 0.7% gain in December. These figures exceeded expectations, and the median sales price has now surged 13% year-over-year. The Philadelphia Fed manufacturing survey posted an impressive increase, jumping from 9.1 in December to 26.5 in January. On Friday the Markit PMI manufacturing survey advanced from 57.1 in December to 59.1 in January, and the Markit PMI services survey rose from 54.8 to 57.5. Finally, weekly jobless claims remain elevated with 900,000 new claims filed for unemployment benefits during the week ending January 16th.

Fixed Income/Credit Market

Interest rates across the U.S. Treasury (UST) curve ended the week mixed anywhere from -2.1 basis points (bps) to +1.8 bps. After surging 20.1 bps the first week of 2021, the 10-year UST yield has closed every trading session in the last two weeks within a 7 basis point range of 1.08% to 1.15%, approximately. On the other hand, with the FOMC committed to the zero-lower bound (ZLB) for the foreseeable future, the 2-year Note has increased only two tenths of a basis point thus far in 2021. According to Bloomberg's forward curve matrix, the 2-year Note is projected to be at 0.24% in January 2022, which is a 12 bp increase. It is often suggested that the 2-year UST yield is an indication of where the market thinks Fed funds will be one year later. Using that logic, the forward curve is prognosticating an FOMC rate hike sometime between January 2022 and January 2023. However, the Fed funds futures implied rate is forecasted at 0.067% one year forward which is an implied rate change of -0.023%. The debate of when the Fed will hike interest rates again rages on.

Equities

Despite finishing lower on Friday, equities posted another solid week of performance as all major indices closed with weekly gains. Stocks have rallied for most of January due to positive sentiment surrounding the vaccine rollout, the new administration's proposed stimulus package, and an impressive beginning to earnings season. According to FactSet, of the 62 companies in the S&P 500 that have reported, 89% have beaten analysts' expectations. Investors will be closely watching next week's earnings from Apple, Facebook, and Tesla among others. Stretched valuations and pushback on the size of the stimulus package could be headwinds for the equity markets after the recent strength. The hardest hit sector for the week was financials, losing -1.81%, while communication services topped the charts, up 5.95%. Growth outperformed value this week 3.9% to -0.18%, but value has still outperformed growth on a 3-month basis by 2%.

Our View

After the deadly riot at the U.S. Capitol two weeks ago and worries over the smooth transition of power, President Biden was uneventfully sworn in as the 46th President of the United States on Wednesday. Equities rallied to new highs this week on the hopes of an additional $1.9 trillion stimulus package proposed by the new administration. A significant degree of the recent extension of the stock market's rally over the last few months has been predicated on more fiscal stimulus and the effective rollout of the coronavirus vaccines. With the importance of additional stimulus supporting the financial markets, perhaps a little deeper dive would be useful. The Biden plan calls for $415 billion of spending to assist the vaccine rollout by boosting pharmaceutical production capacity, improved distribution, more testing and an awareness campaign. Broad distribution of the vaccines is vitally important to enable the U.S. economy to bridge toward stronger growth in the second half of 2021. There is a clear need to assist individuals who have lost businesses or who have been laid off due to the recession caused by the pandemic. The latest bill would transfer $1,400 to each taxpayer below specific income caps on top of the $600 payment from the Treasury department in December's Covid-19 relief package. Other provisions are aimed at facilitating getting people back to work such as an allocation of $170 billion to support school reopening and $40 billion aimed at childcare assistance. This provision will be helpful for two-wage earning families struggling with childcare to get back to work. The continuation of the Paycheck Protection Plan ($284 billion) and low interest loans and grants ($190 billion) are earmarked to support small businesses. Despite providing needed assistance, passing the Biden package with its current framework will be difficult and is likely to receive pushback from both sides of the political aisle. Moderate Democrats have expressed concern that the new package comes on the heels of the $900 billion stimulus in December and that the support payments need to be more targeted. Without a targeted approach, a sizable portion of the transfer payments are going to be misdirected to people unaffected economically by the impact of the pandemic. Republicans object to some elements such as a national $15 minimum wage that is attached to the bill and to its overall size. The market may need to come to grips with the idea that a smaller, compromise package could be required and that will take time to develop.

COMING UP NEXT WEEK		Consensus	Prior
01/26 Consumer Confidence	(Jan)	90.0	88.6
01/27 Durable Orders SA M/M	(Dec)	1.0%	0.97%
01/28 GDP SAAR Q/Q (First Preliminary)	(Q4)	4.3%	33.4%
01/28 Leading Indicators SA M/M	(Dec)	0.20%	0.60%
01/28 New Home Sales SAAR	(Dec)	850.0K	841.0K
01/29 Personal Income SA M/M	(Dec)	0.05%	-1.1%

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