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Market Update: March 29, 2020

Volatility continued last week, but it was the good kind of volatility for a change. Beleaguered investors received a nice reprieve as stocks recorded double-digit gains ... the biggest weekly gain since 1938. Equity markets are still off more than 20% year-to-date.

This is a unique situation. It's not like a typical downturn. We've asked people to step back from economic activity really to make an investment in our public health.

The virus is going to dictate the timetable here. The first order of business will be to get the spread of the virus under control, and then resume economic activity.

Federal Reserve Chairman Jerome Powell – WSJ 3/26/20

How volatile have equity markets been? The Dow Industrials advanced 21% from Tuesday through Thursday last week. This was the largest three-day percentage gain since 1931. You could actually claim we had a *bull market* (defined as a 20% gain) occur last week. That would make last Monday the end date for an 11-day bear market for the index ... the shortest in history. Interesting to note that the *11-day* bear market was preceded by an *11-year* bull market.

A mid-week 21% increase? The current upturn means that the S&P 500 is back above the lows hit during the fourth quarter of 2018. Still, given the extreme uncertainty of the economic backdrop, the equity markets may now appear to be a little too confident.

We always knew the market would begin to recover before coronavirus was cured, but if you're scratching your head about this week's wild reaction, you're not the only one.

Alex Eule – Barron's 3/26/20

President Trump signed a \$2-trillion emergency relief package on Friday. The bill is the largest relief package in U.S. history, and weighs in at nearly 10% of U.S. Gross Domestic Product (GDP).

I never signed anything with a T on it.

President Trump – 3/27/20

The package includes direct payments to many Americans, expands unemployment insurance, finances loans to small businesses, and provides a lending facility for the Treasury Department to make or guarantee loans to large corporations.

This is definitely a step in the right direction. What we needed right away was an economic buffer essentially stabilizing the downside risk for the next three or four months while the virus hopefully starts to dissipate.

Paul Sandhu, BNP Paribas – WSJ 3/25/20

About \$20 trillion is invested in IRAs and 401(k)-style retirement plans. Provisions in the relief package raise limits on 401(k) loans and loosen rules on hardship distributions from retirement plans. The bill also suspends for 2020 minimum required distributions from tax-deferred accounts.

The goal is to prevent this government-ordered business liquidity crisis from becoming a solvency crisis that becomes a banking crisis and depression.

The Editorial Board – WSJ 3/23/20

Economists continue to speculate on the breadth and depth of the economic impact of the coronavirus. The areas most affected by social distancing – retail, transportation, leisure & hospitality – represent a larger percentage of overall employment, but a smaller share of GDP than finance and construction industries did during the Great Recession.

The ultimate impact of the virus on economics and markets is highly speculative at this time since there is so much we do not know about how the outbreak will actually evolve from here. We need clarity on many fronts.

Rick Lacaille, State Street Global Advisors – WSJ 3/22/20

The virus is already taking a widespread toll on the global economy. For example, Singapore's economy declined over 10% during this quarter, while India is a nation in lockdown until mid-April. The Netherlands, Ireland, and Thailand all are slashing economic forecasts.

The situation we are heading into looks more like a thunderstorm than a drizzle.

Halimah Yacob, Singapore President – WSJ 3/26/20

The virus is now converging on the poorest countries in the world. Africa, Southeast Asia, and Latin America could be joining the epidemic at a time where their healthcare systems are already inundated. Africa, for example, has an average of two doctors for every 10,000 people ... Italy, by contrast, has 41 doctors per 10,000 people. Many of these countries have urban slums where millions live with poor sanitation and no plumbing.

If I was leading Italy or France, I would have no problem imposing a curfew. But here, if you can't provide food, at the doorstep, to those who live in slums, a curfew can't work.

Imran Khan, Pakistani Prime Minister – WSJ 3/25/20

Through February, the U.S. economy had been adding jobs for a record 113 straight months. During this time, payrolls increased by 22 million, and the unemployment rate fell to levels reminiscent of the 1960s.

For the week ended March 21, a record 3.28 million workers applied for unemployment benefits. The number of Americans filing for claims was nearly five times more than the previous record high.

The strong labor market kept the U.S. economy humming for a decade – straight through a European debt crisis, Japan’s tsunami, a Chinese economic slowdown, a domestic manufacturing slump, volatile energy prices and a global trade war.

And then, in a matter of days, it stopped.

Morath/Hilsenrath/Chaney – WSJ 3/26/20

In Rhode Island, one in fifteen workers sought unemployment benefits ... the highest rate in the nation.

Job losses lead to many other problems ... lack of health insurance, stress, drug and alcohol abuse, and suicides.

What I’ve been concerned about is we can hurt people if we let them get this infection, and we can hurt people with an all-out war that destroys their lives in other ways. I’m saying how about we do this in phases.

David Katz, Yale University – WSJ 3/25/20

Greg Ip (WSJ) summarizes three observations from prior disasters:

1. The government and the public always face a trade-off between economic stability and public health and safety.
2. At the outset of the disaster, policy makers are coping with enormous uncertainty.
3. Disasters often create permanent changes to habits.

We learned that we need to prioritize speed, think in tranches, be visible and worry about how to pay for it later.

**Tim Adams, Institute of International Finance – WSJ 3/20/20
(Mr. Adams served in the Treasury Department during 9/11 and Hurricane Katrina.)**



Okay, but just how are we going to pay for this \$2 trillion relief package? I suppose, since we already owe over \$20 trillion, what's another \$2 trillion when it's all said and done. Never mind about the promises made ... estimated at an additional \$50+ trillion ... that do not show up on government balance sheets. At some point, after we get beyond the current crisis, all this debt will inevitably generate inflationary pressures.

... we are now entering an era of monetary financed fiscal policy, just as the trend to de-globalization accelerates. This is going to be very inflationary.

Julian Brigden, Macro Intelligence 2 Partners – Barron's 3/27/20

What's next for stocks? I wish I knew. The problem is no one knows, but plenty of people still love to share their opinions ... and many of those opinions currently are quite pessimistic. Given all this, it's easy for investors to be paralyzed with fear.

The true contrarian only buys when it makes him feel physically sick to press the buy key. At the moment, I not only feel sick at the idea but want to disinfect the keyboard before using it. Does that mean it's time to buy?

James Mackintosh – WSJ 3/23/20

Stick to policy, and you will find yourself unemotionally buying low and selling high more times than not. It is the quintessential free lunch.

The least-productive thing I hear smart people doing most days is arguing about politics. Right now, it feels like a second pandemic ... So, here's a plan that goes equally well with MAGA hats, Ridin' With Biden pins, and Feel the Bern stickers. If you're a long-term investor, it's a good time to put money in stocks.

Jack Hough – Barron's 3/27/20

I'm going to go out on a limb and predict more volatility going forward. At some point, the virus will recede and our economy will spring back. Let's all hope that comes sometime sooner rather than later.

Stay safe, and let us know if we can help.

Daniel G. Corrigan, CPA/PFS, CFP®