



CORRIGAN FINANCIAL, INC.

Market Update: May 24, 2020

Stocks rallied last week on hopes of an economic recovery, as states around the country eased coronavirus restrictions. All 50 states have now begun reopening to revive economies decimated by the pandemic. Rules vary state-by-state as well as place-by-place, including restaurants, churches, and schools.

While turning off the economy was as easy as flipping a switch, reopening the economy will require the use of a dimmer, as it is a far more complex and gradual process.

J.P. Morgan Asset Management, Market Insights – 5/18/20

After returning more than 3% last week, domestic stocks are now down just over 8% year-to-date. Performance has been extremely uneven ... with value stocks down 20% and growth stocks showing modest gains. In fact, growth stocks are now on track to outperform by the widest margin since 1999. Many analysts believe the divergence can't last that much longer.

In our view, the extreme current valuation gap between the most expensive and least expensive stocks will most likely be closed when an improving economic environment causes low valuation stocks to *catch up* to the current market leaders.

David Kostin, Goldman Sachs – WSJ 5/19/20

Why are stocks performing so well when the economy is tanking? With considerable monetary and fiscal stimulus, along with historically low interest rates, many consider stocks to be the only game in town. The popular shorthand is TINA ... *there is no alternative*.

It's very much a picture of people buying what is safer, what's defensive and what's worked over the last decade.

Anwiti Bahuguna, Columbia Threadneedle – WSJ 5/19/20

Another 2.4 million workers made unemployment claims last week. In the nine weeks since the pandemic induced lockdowns, over 38 million workers have filed claims. The weekly claims continue at a pace beyond anything seen in a pre-coronavirus America, but last week's total represents the seventh straight weekly decline.

Elevated jobless claims show that even as states open back up for business, many jobs have been permanently lost and plenty will be slow to come back as businesses adjust to a new normal that includes capacity limits and the use of personal protective equipment.

Lisa Beilfuss – Barron's 5/21/20

Continuing claims, defined as workers who remain unemployed and continue to collect benefits, ended the week of May 9 at just over 25 million ... an increase of about 2.5 million from the previous week.

According to the Census Bureau, nearly half of adult Americans live in households that have lost income due to the nationwide shutdown. Another 37% expect to see their household income decline over the next month. The hardest hit lived in areas heavily reliant on tourism or the energy industry.

Nearly 15 million credit cards, about 3% of those tracked by TransUnion, are in "hardship programs". Also, about 3 million auto loans are in hardship programs, or about 3.5% of those tracked. These numbers are up quite a bit from a year ago when 0.03% of credit cards and 0.5% of auto loans were in financial-hardship programs.

In a fast-changing environment, new trends often first appear in private data, as opposed to government data. Some examples where activity is increasing: map requests on Apple devices, visits to retail stores, customers contacting real-estate brokers, Uber rides, and same store sales at fast-food chain Wendy's.

Official data may not show much, if any recovery, in May from April, but a rise in June is quite plausible. If that growth is sustained, this economic contraction could go on record as the deepest since the 1930s, yet also the shortest, lasting as little as two or three months. Postwar recessions have lasted six to 18 months.

Grep Ip – WSJ 5/16/20

Federal Reserve Chairman Jerome Powell was on 60 Minutes last Sunday. He warned that it could take some time to fully recover from the pandemic. He also said it was important that state and local governments not be forced to make sharp cutbacks to balance budgets as revenues plunge. Chairman Powell reiterated that the Fed was *not out of ammunition by a long-shot* ... but that it had no intention of cutting policy rates below zero.

This is a time of great suffering and difficulty, and it's come on so quickly and with such force that you really can't put into words the pain people are feeling and the uncertainty they're realizing. But I would just say this: In the long run, and even in the medium run, you wouldn't want to bet against the American economy.

Jerome Powell, Fed Chairman – WSJ 5/17/20

The nonpartisan Congressional Budget Office expects the U.S. economy to decline by 1.6% during all of 2020 and the unemployment rate to remain above 9% through the end of the year. Fed Chair Powell is looking for more fiscal stimulus to offset what he sees as a slower recovery. Treasury

Secretary Mnuchin sees more of a V-shaped recovery, suggesting a wait-and-see approach to additional stimulus.

The Fed and the Trump Administration were frequently at odds last year over interest rate policy, with the president faulting Mr. Powell for not providing more stimulus during a period of steady economic growth. Now, the tables are turning, with the Fed now calling for more stimulus and the administration more hesitant.

Timiraos/Davidson – WSJ 5/19/20

Biotech startup Moderna, Inc. reported promising results on its first human trial of a coronavirus vaccine, helping the Dow Industrials to a 900-point gain on Monday. The results suggested Moderna could be on track to produce a vaccine for possible emergency use by the fall.

The early data suggest Moderna's vaccine, code-named mRNA-1273, has a very good chance to provide protection from Covid-19, the disease caused by the coronavirus.

Stéphane Bancel, Moderna CEO – WSJ 5/18/20

On Tuesday, the Dow Industrials gave back 390 points, after the scientific community offered some skepticism about the vaccine announcement from Moderna. While the announcement was promising, a Phase 1 trial with 45 participants is only just a good start.

Markets will remain highly sensitive to news about coronavirus treatments and vaccines. Needless to say, a cure or prevention would be a game changer. But investors have shown a tendency to get ahead of themselves.

Nicholas Jasinski – Barron's 5/19/20

Only about 16% of vaccines that begin clinical trials have been approved. There are about 100 coronavirus vaccines in development world-wide, and at least seven others have started human testing.

It took 20 months for scientists to prepare a SARS vaccine for test on humans, but private innovation is compressing the time-frame against Covid-19.

The Editorial Board – WSJ 5/18/20

Germany and France proposed the establishment of a recovery fund to support certain regions hit hard by the pandemic. The \$546 billion fund would need to be supported by all 27 European Union members.

It would be a big game changer in terms of the perception of where the eurozone is headed. That's a big story.

James McCormick, NatWest Markets – WSJ 5/19/20

China had yet another busy week as it tightened its control over Hong Kong, threatened Taiwan, and increased its rhetoric against the U.S. Also, in a humbling moment, China announced it was abandoning the country's annual GDP target for the first time in more than a quarter-century.

This year could be a turning point for Beijing to further downplay the GDP target. We are likely to see this trend extend into the future.

Liu Li-Gang, Chief China Economist at Citigroup – WSJ 5/22/20

The magnitude of China's troubled economy was exposed by abandoning the GDP target ... one of China's most flaunted political goals. The deteriorating relationship with the U.S. is also creating tremendous economic uncertainty, as they spar over trade, technology and the pandemic.

Anything that knocks China's growth rate, whether it's a slower recovery from the coronavirus or a rise in tensions with the U.S., will weigh on global growth expectations.

Seema Shah, Principal Global Investors – WSJ 5/22/20



So far, 2020 has been quite the roller-coaster ride. If anything, the past few months have shown us how difficult it is to time the markets ... and how important it is to adhere to policy. Consider the following observation from Russell Investments:

The beauty of a well-constructed asset allocation policy – informed by an investor’s near-term cash needs and long-term requirements for benefits payments ... is that such a policy allows one to *not just do something, but to simply stand there.*

Developing such a strategic policy and enforcing it not only avoids the temptation to react in the heat of the moment, but it is the hallmark of a disciplined investment program.

Stocks have been trading in a relatively tight range over the past few weeks. Oil markets are stabilizing, with traders no longer panicking to find buyers for excess crude supplies. There is also some optimism that a vaccine could be available sometime later this year, although that is probably the best-case scenario.

Overall, the markets reflect that investors are not taking big risks, but they are also not being overly conservative.

I hope you enjoyed the Memorial Day weekend. Stay safe, and enjoy the warmer weather.

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