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### **Market Update: May 3, 2020**

Stock markets had their ups and downs last week, but the three major U.S. indexes ended with only minor declines. The week began with optimism over medical advances and the easing of lockdown constraints, but ended with concerns over jobless claims, corporate earnings, and the collapse of consumer spending.

U.S. stocks advanced over 13% during April, recording their best monthly performance in decades. Equity values have now rebounded by more than 30% since the lows reached on March 23. Still, returns for domestic stocks remain down 10% year-to-date.

**In zoological terms, is the 34% rebound since the low of March 23 the start of a new bull market or merely a dead cat bounce we will all forget when the bear returns?**

**James Mackintosh – WSJ 4/30/20**

The big technology stocks – Microsoft, Apple, Amazon, Alphabet, and Facebook – have helped the Nasdaq Composite stock index to recover almost all its losses for the year. These five stocks, make up 39% of the index's weight ... as opposed to *only 20%* of the S&P 500 Index.

**How many times have you ordered from Amazon? They happen to be in the kind of sweet spot of what people need during this period, as opposed to what's being shut down.**

**Jason Pride, Glenmede Investment Management – WSJ 4/30/20**

Markets seem to be reflecting optimism for a quick economic turnaround. The most recent example being the \$28 billion of

speculative-grade bonds issued over the past two weeks ... the fourth largest two-week corporate debt issuance on record.

**My sense is the market is attaching a higher probability to a V-shaped recovery than I would, or most economists would at this point.**

**Mark Zandi, Moody's Analytics – WSJ 4/28/20**

The Bureau of Economic Analysis reported on Wednesday that U.S. gross domestic product fell at an annualized rate of 4.8% in the first quarter. The decline was the worst since the Great Financial Crisis and ended the longest U.S. economic expansion on record.

With nonessential stores closed, consumer expenditures plunged 7.5% during the quarter. Consumer expenditures weigh heavy on the U.S. economy, as they make up more than two-thirds of total output.

**The upshot is this was already an economic catastrophe within two weeks of the lockdowns going into effect. The second quarter will be far worse.**

**Paul Ashworth, Capital Economics – CNBC 4/29/20**

Auto sales had their worst month in decades, as industry analysts estimate sales declined 50% from the prior year. The Institute for Supply Management reported on Friday its manufacturing index fell to the lowest level since April 2009.

**This is the fastest rate of change in economic activity in modern times.**

**Tim Fiore, Institute for Supply Management – WSJ 5/1/20**

The eurozone economy fell at the fastest rate on record during the first quarter. Gross Domestic Product was 3.8% lower than the fourth quarter of 2019. On an annualized basis, the economy declined 14.4%

... far exceeding the 4.8% decline in the U.S. By comparison, Europe's lockdowns started earlier and were more widespread.

**The severity of the contraction in the eurozone – the 19 countries that use the euro as their currency – augur more economic pain in the U.S. The U.S. had a surge in infections and lockdowns weeks later than did hard-hit European countries such as Italy and Spain.**

**Paul Hannon – WSJ 4/30/20**

On Wednesday, Federal Reserve Chairman Jerome Powell warned that the worst is yet to come, but reassured the financial markets that the Fed will use its full range of tools to support economic recovery. Mr. Powell noted the economic data will continue to deteriorate, and he called on Congress and the White House to increase fiscal stimulus to prevent deeper economic damage.

**Everyone is suffering here, but those who are least able to bear it are the ones who are losing their jobs and losing their incomes and have little cushion to protect them.**

**Jerome Powell, Federal Reserve Chairman – WSJ 4/29/20**

On Thursday, the Labor Department reported another 3.8 million workers made initial claims for unemployment insurance. The pandemic has now triggered over 30 million claims since mid-March. The latest weekly report showed that 12.4% of the U.S. workforce was covered by unemployment benefits during the week of April 18.

The coronavirus stimulus package adds an extra \$600 to weekly unemployment benefits through July 31. The average weekly payment made to laid-off workers last year, according to the Labor Department, was \$378 ... so the current average payout should rise to about \$978.

Oil prices tumbled to start the week, over growing concerns that supply continues to exceed demand at a time when storage facilities are “filled to the brim”. Investors are still hesitant after a futures contract for delivery this month fell below \$0 a barrel, a first in oil market history.

**No one wants to be the person holding the bag. They’re looking at where storage capacity is and saying it’s too close to call.**

**Rebecca Babin, CIBC Wealth Management – WSJ 4/27/20**

The number of active oil rigs in the U.S. is down almost 50% since March 13. Starting Friday, globally coordinated supply cuts are scheduled to begin. The cuts will reduce output by 9.7 million barrels a day, or about 13% of global supply. If the oil market stabilizes, analysts expect prices to rebound later in the year.

**Negative oil prices were a slap in the face that the market probably needed. The market was producing too much crude oil and people were just trying to hold on for a while.**

**Ben Luckock, Trafigura Group – WSJ 4/27/20**

The delivery point for U.S. crude, Cushing, Oklahoma, was nearing *tank tops* of its 80 million barrels of available storage. The active frac count is down over 70% from the first quarter average. Fracking wells is the last step in releasing oil and gas from shale formations and *frac holidays* are bad news for oil-field service companies.

**“Tank tops” and “holidays” may conjure up images of a relaxed summer barbecue, but they mean something altogether less pleasant in America’s oil patch. People and companies in the U.S. shale patch will have plenty of unwanted leisure time for at least the next several months.**

**Spencer Jakab – WSJ 4/27/20**

According to Informa Pharma Intelligence, there are more than 1,000 clinical trials testing treatments or vaccines for COVID-19. The markets got a boost on Wednesday when Gilead Sciences reported good early news on its remdesivir treatment for the coronavirus.

**What it has proven is that a drug can block this virus.**

**Dr. Anthony Fauci - White House Press Conference 4/29/20**

Vaccines can take years to develop and ultimately get to the public. Many do not survive the challenges of the testing process. Research into a coronavirus vaccine is moving at a rapid pace, with some companies hoping to have a vaccine *for emergency use* by the fall.

Pfizer, for example, is investing \$500 million in research for a vaccine. They are also proactively investing an additional \$100 million in manufacturing facilities to supply the projected high demand.

**I'm not aware of any vaccine that's been developed after only a year to a year-and-a-half after identifying a pathogen. It usually takes years. People are moving very, very quickly with this.**

**Walter Orenstein, Emory Vaccine Center – WSJ 4/28/20**



State and local governments have essentially pushed the pause button on the U.S. economy. Everyone is expecting a massive decline in economic activity during the second quarter. The impact will be cushioned by monetary and fiscal stimulus ... but it won't be pretty.

**If beginning to open the valve of economic activity results in a significant uptick in new coronavirus cases, expectations of a**

**quick return to normality from here may prove to be too optimistic. The market won't like that a bit.**

**Nicholas Jasinski – Barron's 4/30/20**

Reopening the economy will bring many challenges. Investors should expect ongoing volatility as the markets absorb the grim, but highly anticipated, economic results during this second quarter.

**The combination of feverish gains and mounting anxiety is making asset allocation a challenge. My portfolio is 60% stock index funds and 40% Alka-Seltzer. I'm not selling the funds, though. Valuations are high, but not a deal breaker. And there's good news afoot.**

**Jack Hough – Barron's 5/1/20**

We really appreciate your support during these tough times. Stay safe.

**Daniel G. Corrigan, CPA/PFS, CFP®**