CORRIGAN FINANCIAL, INC.

Market Update: February 2016

February was quite the rollercoaster ride, but after the dust settled, U.S. stocks ended the month virtually unchanged. For many of us, it was simply a well-deserved breather after January's sharp declines.

According to Factset, over the past two months there have been 23 days with movements over 1% (up or down) in the S&P 500. Five of those days had moves 2% or greater. For the comparative period last year, there were only 12 days with 1% or greater movements, and no days registered a 2% swing.

So, why are stocks struggling? There are a lot of thoughts on why the markets are performing so poorly, and certainly no one is shy about sharing their opinion. Here is a short list of the usual suspects:

- The slowdown in China
- Monetary policy
- Declining U.S. corporate profits
- Impending recession
- Declining oil prices
- Geopolitical risks
- Mounting global debt levels

> **The problem is that all these plots and subplots left investors without a clear narrative to follow. No one can say what's going on, and investors have responded by reducing the risk they take.**
>
> **James Mackintosh – WSJ 2/29/16**

The more obvious explanations usually focus on diminishing economic growth, the oil supply glut, and disappointing corporate earnings. Looking more deeply, you could argue that the markets are repricing *risk assets* to reflect concerns that monetary policy has run its course.

> **In general, we believe much of the volatility in global markets is at least partly a function of the diminishing returns of excessive central bank interventions and the realization that central banks are not omnipotent and perhaps suffer from credibility problems.**

Liz Ann Sonders, Charles Schwab & Co., Inc. – 2/19/16

The U.S. economic news was in sharp contrast to the financial market response. Consumer spending is on the rise, wages (finally) saw solid growth, retail sales and home purchases were strong … all confirming the resiliency of the U.S. economy.

> **The engine of growth in the U.S. economy is still very powerful and I would not want to bet against that.**
>
> **Eddie Perkin, Eaton Vance Equity Officer – WSJ 2/29/16**

Economic growth for the 4th quarter (GDP) was revised up to a 1.0% annualized rate, an increase from the 0.7% earlier estimate. Energy prices have stabilized (at least for now), and the dollar's rise has leveled off. Finally, and maybe more importantly, inflation is on the rise.

> **Once oil and import prices stop falling and level out, their effects on inflation will dissipate. Which is the main reason we expect that inflation will rise to 2% over the medium term.**
>
> **Stanley Fischer, Fed Vice Chairman – WSJ 2/26/16**

Negative Interest Rates … are you serious?

Just when you think the world's central banks have run out of ammunition, they introduce *negative* interest rates. In a strange twist, lenders in the near future may find themselves paying borrowers.

In theory, if central banks *charge* interest on excess deposits, banks will be more likely to lend that money … which will stimulate the economy. At the *retail* level, things could get a little crazy. Buyers would want to pay bills fast while sellers would want to delay receiving cash … not to mention the obvious strategy of keeping money under the mattress.

> **We are doing something the world has never seen. We do not know how this movie plays out. Berkshire Hathaway is sitting with billions of dollars of euros. We would be better off with a big mattress in Europe that we just stick all this**

money in, if I could just find a person I trusted to sleep on that mattress … It distorts everything.

Warren Buffet – 2/29/16

Apparently, the future is now. On March 1st, for the first time in history, Japan sold (at auction) 10-year government bonds at a yield of minus 0.024% if held to maturity.

In theory, there is no difference between theory and practice. In practice, there is.

Yogi Berra

S&P 500 earnings are on track to register their 3rd straight quarter of declines, but the U.S. economy (often compared to a plow horse) remains on a slow growth track. Concerns about China remain, while central banks in Europe and Japan continue to stimulate their struggling economies. Emerging market stocks have declined by nearly 25% over the past 12 months, but negative fund flows are finally showing signs of stability.

These are challenging times for investors. **The only way to get through this rough patch is to remain patient, diversified, and disciplined.** So, let's get through the busy tax season and these last few weeks of winter. *Spring will be here before you know it.*

Daniel G. Corrigan, CPA/PFS, CFP®