CORRIGAN FINANCIAL, INC.

Market Update: May 2016

Global stock markets were flat for the month, with U.S. stocks registering gains of nearly 2% while foreign stocks declined by the same rate. The 10-year U.S. Treasury yield barely changed, ending the month at 1.85%, as domestic bonds remained flat. Foreign bonds declined, hurt mostly by a stronger dollar. Year-to-date, global stocks and bonds are up by 1.85% and 5.87%, respectively.

> **While the economy is not booming, I think the data in the month of May have confirmed that people's worst worries were overdone, and that's why markets are generally up.**
>
> **David Kelly, J.P. Morgan Chief Global Strategist, WSJ – 5/31/16**

A Fed funds rate increase this summer now appears imminent. According to Chairwoman Janet Yellen, a rate increase would be appropriate in the coming months if the economy and labor market continue to strengthen.

> **Investors' new expectations for the pace of U.S. interest-rate increases changed the complexion of the markets in May, with many pivoting from worries that rising rates would hurt stocks to embracing them as a sign of a more robust economy.**
>
> **Gold/Kuriloff, WSJ – 5/31/16**

Conventional wisdom took yet another hit in May. A strong dollar is thought to be bad for stocks and oil. U.S. stocks and oil prices advanced, however, as the dollar rebounded.

> **At times, markets seem to move just to spite those of us who painstakingly build explanations … Most of all, we should be humble about our ability to forecast what will happen to markets, or why, because the patterns change so often.**
>
> **James Mackintosh, WSJ – 5/31/16**

A rising "fear premium" helped to push oil prices to around $50 a barrel, nearly doubling from the lows reached in February. Oil supply outages are at high levels due

to disruptions in Nigeria, wildfires in Canada, and political unrest in Libya. **About 3.5 million barrels per day are off-line … or more than 3% of global production.** At the same time, there is less slack to fill supply gaps due to declining global production.

The global economy continues to advance … albeit at a slow pace. On the surface, there are certainly plenty of positive overall developments to consider:

- Rising consumer spending
- A strong labor market
- Firming, but relatively low Inflation
- Rising U.S. home prices and new home sales
- Markets and the Fed essentially aligned
- GDP growth in Europe and Japan surprisingly strong

Still, a laundry list of concerns remain:

- Uncertainty surrounding Fed policy
- The upcoming "Brexit" vote
- Geopolitical uneasiness
- A contentious U.S. election season
- Continued weak U.S. profit growth
- High stock valuations

What's an investor to do? Consider the following recommendation from Charles Schwab's Chief Investment Strategist:

> **We remain neutral on U.S. stocks and believe we'll continue to slog along, with summer typically a more sluggish trading season. We urge investors to remain patient and not reach for returns by adding to risk beyond their normal strategic allocations.**
>
> **Liz Ann Sonders, Charles Schwab & Co. – 5/27/16**

Zero based interest rate policies (ZIRP) … not to mention negative interest rate policies (NIRP) … have undermined *capitalism* as we know it. **Basically capital is not being properly compensated.** For governments financing deficits, it is a godsend. If you have savings in the local bank … not so great. The outlook for investors, including pensions and 401k plans, is also considerably diminished.

Investment returns have actually been subpar for some time. **The S&P 500 Index produced an average annual return of just 5.56% over the past 15 years**… well below the longer-term 10% average annual return (since 1926).

Updating your financial plan is the most important action you can take. The sky is not falling … but you may need to make some adjustments to achieve your longer-term goals.

Daniel G. Corrigan, CPA/PFS, CFP®