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## **Market Update: February 2022**

Stock markets closed down for the second straight month, with global equities off by 2.5% in February and 7.4% year-to-date. Overall, foreign stocks have outperformed U.S. stocks, while value stocks held up better than their growth counterparts. Russia's invasion of Ukraine added geopolitical uncertainties to a global economy already grappling with supply constraints, soaring inflation, and pandemic related obstacles.

**Russia's invasion of Ukraine is President Vladimir Putin's most aggressive move yet in his two-decades-long campaign to reassert Russia's place in the world and redeem the humiliation of the fall of the Soviet Union. It is an extraordinary gamble.**

**Simmons/Luxmoore – WSJ 2/24/22**

Russia is a major supplier of oil, natural gas, and other commodities. The European Union gets about half of its natural gas imports and nearly a quarter of its oil imports from Russia. Also, Ukraine and Russia combine to account for 30% of global wheat exports, 19% of corn exports, and 80% of the world's sunflower oil.

**It is already ending the amnesia about the importance of energy security. It means new emphasis on diversification of energy sources for Europe and a new look at U.S. domestic and international energy policies.**

**Daniel Yergin, IHS Markit – WSJ 2/23/22**

The last few days of the month saw some wild intra-day moves, as investors pondered the economic impact of the conflict, in addition to the related Western sanctions on Russia. Consider the plunging market value of Russian sovereign debt: Russia's 5-year dollar denominated notes that

traded at a 9% yield on Friday (2/25), were trading to yield 25% on Monday (2/28).

**Under the surface, moves suggested that investors are still wrapping their heads around the implications of the war in Ukraine and the resulting sanctions by the U.S. and its allies on Russia. But the long-term picture for markets in 2022 isn't all that different than it was a month ago.**

**Nicholas Jasinski – Barron's 2/28/22**

In the wake of the invasion, Russia's stock market crashed and the ruble weakened to a record low ... as bank customers rushed to withdraw their savings. Russian stocks lost about a third of their value in February alone, while Brent crude, the global oil benchmark, topped \$100 a barrel for the first time since 2014.

**Global markets for everything from stocks to oil to wheat are recording some of the most extreme price swings in decades, a sign of investor unease over unpredictable economic and political dynamics.**

**Gunjan Banerji – WSJ 2/27/22**

History has shown that market falloffs due to geopolitical shockwaves tend to be short-lived. A study by Vanguard concluded that while equity markets often react negatively to the initial news, returns over the following 6- and 12-month periods were largely in line with long-term average returns.

Still, at this point it is difficult to evaluate the direct economic impact of the conflict and related sanctions ... and maybe more importantly, the longer-term unintended consequences and collateral damage resulting from the conflict.

**The U.S. and its allies issuing sanctions on Russia will have a reverberating impact on not only Russia, but the entire world.**

**Dawn Tiura, Sourcing Industry Group – WSJ 2/27/22**

One year ago, the Federal Reserve was not expected to raise rates until sometime in 2024. Now with a rate-hike penciled in for their next meeting (March 15-16), some analysts were even entertaining an initial hike of up to 50 basis points. Given the current geopolitical backdrop, however, monetary policy decisions have become more complicated. Economists now expect central banks to withdraw stimulus more slowly because of the Russian invasion.

Currently, most analysts are not forecasting a big change to U.S. economic growth. While geopolitical concerns will potentially push inflation higher and exacerbate supply chain bottlenecks, the U.S. economy should continue to rebound from the winter surge of Covid-19 infections.

**The impact of the Russian invasion on the U.S. economy will be on the margins.**

**Mark Zandi, Moody's Analytics – WSJ 2/28/22**

Despite the Omicron variant of Covid-19 reaching peak levels, the Commerce Department reported consumer spending in January rose 2.1% from the previous month. The department's measure of inflation was also up ... surging 6.1% in January from a year earlier. The current rate of inflation is now at the fastest pace in four decades.

The Case-Shiller home price index rose 18.8% in calendar year 2021. That registered the highest increase since the index was originated back in 1987. Inventory shortages continue to push up prices. The number of homes for sale reached a record low in January, according to the National Association of Realtors.

**The forces driving housing demand are powerful. The pandemic has reshaped many Americans' views about housing, and the push toward suburban living it helped set off remains strong. Moreover, after more than a decade of underbuilding – a consequence of the housing bust that began in 2005 – there is a dearth of available homes.**

**Justin Lahart – WSJ 2/18/22**

First time buyers, struggling to keep pace, saw their market share fall to 27% in January from 33% a year earlier. Rising mortgage rates are expected to help decelerate the rate of home-price growth. The average 30-year fixed-rate mortgage is approaching 4% ... a rate not seen in nearly three years.

**The surge in mortgage rates is likely to take a bite out of the demand for housing, mostly among first-time buyers and those with limited budgets.**

**Selma Hepp, CoreLogic – WSJ 2/22/22**

Special-purpose acquisition companies, or SPACs (also known as blank-check companies), raise money with the goal of finding and merging with a private company. The money remains in a trust account, earning interest until a merger is closed. If no deal is found, investors get their money back. Currently, some 600+ SPACs, with over \$160 billion in combined funds, are still hunting for acquisitions.

**Capital is cheap, because the world is awash in it. This is historically extraordinarily unusual ... Today, more capital is available than opportunities to invest it.**

**John Mauldin – Mauldin Economics 2/12/22**

Despite the declining rate of Covid-19 infections, many employees continue to work from home. Kastle Systems estimates that about one-

third of the workforce returned to the office during the first week in February ... an increase from 23% during the first week of January, but a decline from the 41% recorded during the first week in December, before the peak of the Omicron variant.

**There's a huge divergence between the ways that people are coming together in the other parts of their lives and the way they aren't in the office.**

**Mark Ein, Kastle Systems – WSJ 2/14/22**



All things considered, the U.S. economy has had a solid start to the new year, with robust job growth and rising wages. Companies also reported an uptick in demand during February, after pandemic-related disruptions and employee absenteeism in the previous months.

**With daily new Covid-19 cases falling, restrictions easing and the strongest consumer finances in recent history, Americans are finally emerging from the pandemic eager to splurge on everything from travel and sports events to restaurants, cruises and theme parks, executives say.**

**Will Feuer – WSJ 2/17/22**

Americans are increasing spending on all things associated with travel and entertainment after being locked down for the past couple of years. More importantly, households are still holding an estimated \$2 trillion of savings from government stimulus programs.

**It's not like households are in any danger of running out of savings. That will allow for continued strong spending growth even as inflation is high and some of these government programs recede.**

**Gus Faucher, PNC Financial Services – WSJ 2/25/22**

Total U.S. household debt rose by \$1.02 trillion in 2021, according to the Federal Reserve Bank of New York. The increase, which is the largest annual increase since 2007, was largely attributed to the rising prices of homes and autos. Americans added \$52 billion to credit-card balances in the fourth quarter of 2021 ... which was credited to pent-up demand for travel and entertainment purchases.

With stock values declining and volatility on the rise, does anyone know where the markets are headed in the next month or so?

**I asked two market strategists whether U.S. investors should buy stocks here despite the pall of war in Ukraine. One says definitely, and the other says hold off. Both are convincing. This is why I recommend using an odd number of investment advisors.**

**Jack Hough – Barron's 2/25/22**

Here's some solid advice for investors looking to make some tactical moves during these times of extreme uncertainty:

**In terms of investment implications, remember that staying invested in a diversified, goals-aligned portfolio has paid off through countless geopolitical crises and should continue to do so ... Diversification will remain key as we ride out the volatility.**

**J.P. Morgan Asset Management – Market Insights 2/28/22**

It's been a rough couple of months, but spring is just around the corner. In just a few short weeks, the weather will be warm and all the tax returns (and extensions) will be properly filed.

Hang in there, and let me know if I can be of any help.

**Daniel G. Corrigan, CPA/PFS, CFP®**