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## **Market Update: April 2021**

Global stock markets had another solid month, generating returns in excess of 4% during April. Domestic stocks led the way, thanks to strong corporate profits, ongoing government stimulus, and progress on vaccinations.

**Sometimes people start worrying because the market has come a long way. But with all this government spending, fiscal and monetary stimulus, an improving economy with pent-up demand, those kinds of worries ebb pretty quickly.**

**Jerry Braakman, First American Trust – WSJ 4/29/21**

With more than half of the S&P 500 companies having reported results, corporate profits are projected to increase by 45% in the first quarter from a year earlier, according to FactSet. Back in December, analysts had expected earnings to grow by a mere 16 percent.

Domestic stock valuations, currently at over 22 times projected 12-month corporate earnings, are still well above the five-year average of 18.2 times earnings. Apparently, the markets are not very concerned about the prospects for higher taxes and inflation, at least not for the moment.

**The potential for higher taxes and inflation remains past investors' visible horizons.**

**Randall W. Forsyth – Barron's 4/29/21**

The S&P 500 has hit record highs 25 times this year. U.S. households now hold 41% of their total financial assets in stock investments ... the highest level on record. Margin debt, monies borrowed to buy securities, stands at record levels. To some observers, this investor exuberance is flashing a warning sign.

**Retail investors have made a lot of money on many things, including equities, over the past year. At some point, given how high their equity allocation is, the risk is they decide to get out and take profits.**

**Nikolaos Panigirtzoglou, JPMorgan – WSJ 5/2/21**

U.S. gross domestic product (GDP), the broadest measure of economic activity, grew by 6.4% annualized in the first quarter, according to the Bureau of Economic Analysis. That left the U.S. economy only 0.9% shy of its pre-pandemic peak.

**If you had asked me a year ago where we would be today, I certainly would not have said we would have recouped the pre-pandemic levels of economic activity.**

**Gregory Daco, Oxford Economics – WSJ 4/29/21**

U.S. household income rose 21.1% in March, the largest monthly increase on record. (The increase was largely due to the \$1,400 stimulus checks included in the fiscal relief package signed into law in March.) The personal-saving rate also surged 27.6% ... the second highest rate on record, surpassed only during last April's initial round of government stimulus.

**Households in wealthy countries have amassed an unprecedented pile of savings to spend as parts of the global economy thaw after a year in suspended animation. But it isn't clear whether consumers will seize that opportunity with enthusiasm. If they hold back, the recovery will be less rapid than it could be.**

**Paul Hannon – WSJ 5/2/21**

While the number of Americans filing for unemployment insurance is at the lowest levels since the start of the pandemic, the U.S. remains 8.4 million jobs shy of levels reached before the pandemic hit.

The National Federation of Independent Business (NFIB) recently surveyed 500 small businesses and found that 42% had job openings that they could not fill.

**As long as we've been conducting the survey, it's never been that high.**

**Holly Wade, Executive Director NFIB – WSJ 4/23/21**

Some workers still fear the virus, while others need to stay at home because their children's schools remain closed. But many are staying at home, because enhanced unemployment benefits pay more than their pre-unemployment wage. In fact, the National Restaurant Association's most recent survey found that 1 in 4 restaurant operators said recruitment was their major concern ... more so than Covid-19.

The 19-nation eurozone saw its economy shrink in the first quarter due to restrictions reimposed to combat new waves of virus infection. While the U.S. and U.K. are closing in on their vaccination goals, the 27-member European Union has given at least one shot to only 21% of its citizens. However, European officials still expect 70% of the adult population will be vaccinated by July.

**The only path to ensuring a reopened economy is through vaccination. It's the economies that vaccinate most quickly that are going to be top of the growth league.**

**Klaus Baader, Societe Generale – WSJ 4/25/21**

In late March, President Biden proposed a \$2.3 trillion infrastructure plan. In late April, he outlined proposals for his American Families Plan (AFP), a

\$1.8 trillion program for child care, education, and paid leave. These plans would be paid for by tax increases.

**We'd call the price tag breathtaking, but by now what's another \$2 trillion? Add \$2 trillion or so each for the Covid and green energy ("infrastructure") bills, and that's \$6 trillion of new spending in 100 days. That doesn't include the regular federal budget of more than \$4 trillion a year.**

**The Editorial Board – WSJ 4/28/21**

Tax increases appear to be inevitable for individuals, corporations, and estates. The AFP, for example, includes a proposal to end the tax exemption for investment appreciation when a taxpayer dies. This tax break is usually referred to as the *step-up in basis*. (The untaxed gains on investments held at death would generally be taxed at ordinary income rates, with an exemption of \$1 million per individual.)

**It will be a food fight. This is a huge change that people have been talking about for at least 50 years without ever enacting.**

**Michael Graetz, Columbia University – WSJ 4/30/21**

Disruptions in global supply chains could fuel inflation in the near term. The manufacturing index from the Institute of Supply Management (just released on May 3) remains in expansion territory, but the level missed economists' forecast by a considerable margin ... and it was actually down from last month.

**Recent record-long lead times, wide-scale shortages of critical basic materials, rising commodities prices and difficulties in transporting products are continuing to affect all segments of the manufacturing economy.**

**Institute of Supply Management – Barron's 5/3/21**

The surge of Covid-19 cases globally, especially in India and Brazil, are also a major concern for global investors.

**While western countries debate the merits of individual vaccines, efforts to vaccinate the poorest countries against Covid-19 have slowed to a trickle just as the weight of the pandemic shifts to developing nations.**

**Douglas/Hannon – WSJ 4/25/21**

India is now the epicenter of the coronavirus. The country's daily cases just reached 400,000, and they are currently incurring nearly a quarter of the world-wide deaths from the virus.

**The longer the pandemic rages in India, the greater the chance that it will develop mutant strains more difficult to treat with existing vaccines.**

**Sadanand Dhume – WSJ 4/29/21**



The current environment is often times referred to as the “everything market”. Everything seems to be going up in value ... stocks, real estate, cryptocurrencies ... rarely have so many asset classes advanced this much at the same time.

**This is very different to any other bubble that we've had ever. All of the previous bubbles occurred when economic conditions looked nearly perfect. This has been quite different because the market started its incredible surge in a rather wounded economy.**

**The higher you go, the bigger the price you pay, and I think that's one of the messages of bubbles ... as we chug higher, you can celebrate, but it doesn't change the pain of where we'll be.**

**Jeremy Grantham, GMO – WSJ 4/25/21**

Mr. Grantham is known for predicting the bursting of asset bubbles in Japan (1980s) and U.S. technology (2000), as well as the housing crisis in 2008. At some point, he will be proven correct ... but it's pretty much impossible to pinpoint exactly when the markets will correct. The problem with predicting bubbles, is that market prices can remain at elevated levels for extended periods.

Either way, the U.S. economy is opening up and pent-up demand ... along with trillions of dollars in government stimulus ... is set to fuel a demand explosion.

**But what the boom will look like – how long it will last, what it might do for employment, how much inflation it might generate – isn't clear.**

**Justin Lahart – WSJ 4/24/21**

As the U.S. supply of vaccines begins to exceed demand, the prospects for the return to a *normal* life appear to be within reach for many of us. Investors should be aware that asset values have apparently already priced in this optimistic outlook. But challenges remain, both at home and certainly on a global scale.

**Buy low, sell high. Is any investing advice more universal – or more universally ignored?**

**Jason Zweig – WSJ 4/23/21**

We are all looking forward to the spring and summer months. But, as investors, we need to be skeptical of asset values that are at nose-bleed levels ... propped up by low interest rates and fiscal stimulus.

So, let's enjoy the warm weather, but stay the course.

**Daniel G. Corrigan, CPA/PFS, CFP®**