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Market Update: June 2021

Global stock markets advanced yet again in June, finishing up a very profitable first half of 2021 for equity investors. Domestic stocks led the way with returns in excess of 15% over the past six months, while foreign stocks delivered high single-digit returns. After reaching pandemic lows in late March of 2020, the S&P 500 Index has advanced more than 50% over the past five quarters.

This market is an environment that looks very attractive because we have all this pent-up demand. This all suggests that the economic rebound will be powerful in the back half of this year.

Kristina Hooper, Invesco – WSJ 6/30/21

Declining interest rates drove bonds to positive returns for the quarter, although year-to-date returns remain in negative territory. The interest rate decline was somewhat surprising to investors, as declining rates are usually associated with weaker economic growth and waning inflation. The 10-year U.S. Treasury yield ended the month at 1.443% ... up from 0.913% at the beginning of the year, but down from 1.749% at the end of the first quarter.

Markets are forward looking. Even with high inflation prints, forward inflation has been reassessed lower.

John Bellows, Western Asset Management – WSJ 6/30/21

Stock markets appear quite calm on the surface. The S&P 500, for example, has not declined 5% or more in over eight months. Underneath the calm, however, market leadership has fluctuated among industry sectors, styles (value vs. growth), and capitalization (small vs. large companies).

Markets remain calm even though traders are rapidly shifting their expectations for the economy and which sectors will outperform ... Still, the record demand from fast-trading individuals and prolonged period of placid trading for major indexes have some on Wall Street tempering their expectations.

Ramkumar/Singh – WSJ 6/28/21

According to Refinitiv, analysts now expect second quarter earnings for companies in the S&P 500 to increase by 64% from a year earlier. That compares to a forecast of 54% at the beginning of the quarter. Of course, that increase is in comparison to the worst quarter of the pandemic ... but it is still 8% above the earnings for the second quarter of 2019.

While analyst estimates are typically reliable, it seems likely that many models grossly underestimated the strength and pace of the economic recovery, leading to earnings projections that were overly pessimistic.

J.P. Morgan Asset Management – 6/28/21

Initial unemployment claims fell to a seasonally adjusted 364,000 for the week ended June 26. The four-week moving average dropped to 392,750. Both readings are new pandemic lows. By comparison, initial claims were at 256,000 in mid-March 2020. As of the week ended June 12, nearly 15 million Americans were claiming benefits through all unemployment programs.

The overall trend is in the right direction. Right now, there's a lot of demand for labor out there, and it's the workers that are a little more in the driver's seat.

Jordan van Rijn, Credit Union National Assoc. – WSJ 6/24/21

The government reported on Friday, July 3 that employers added 850,000 jobs during the month of June. With more Americans entering the job market, the unemployment rate actually increased to 5.9% from 5.8% in

May ... a positive development. Still, the U.S. economy currently employs 6.8 million fewer workers than in February 2020.

From a market perspective, this was an all-out positive jobs report. While the stronger-than-expected payroll number signals a continued buoyant recovery, the rise in unemployment rate suggests some slack in the market and, therefore, hopefully some respite for the Fed hawks.

Seema Shah, Principal Global Investors – WSJ 7/2/21

Large U.S. banks just passed stress tests issued by the Federal Reserve. The tests gauge whether strong capital levels can be maintained during times of severe economic conditions. The stress tests were introduced during the 2008-2009 financial crisis, when some financial institutions were bailed out by the government.

Over the past year, the Federal Reserve has run three stress tests with several different hypothetical recessions, and all have confirmed that the banking system is strongly positioned to support the ongoing recovery.

Randal Quarles, Fed Vice Chairman – WSJ 6/24/21

Spending remains well above prepandemic levels, propelling domestic economic growth. Household expenditures were flat in May, with consumers spending more on services and less on durable goods. Personal income declined 2% ... although that figure was distorted due to the fading impact of government stimulus payments.

We believe it's going to be a hot summer in retail.

Jonathan Silver, Affinity Solutions – WSJ 6/25/21

The Fed's key inflation indicator, the core personal consumption expenditures price index (excluding food and energy) rose 3.4% in May from a year earlier ... the biggest increase in nearly 30 years. Supply chain

disruptions, the root cause of inflationary pressures, are expected to persist at least through the end of this year.

It turns out it's a heck of a lot easier to create demand than it is to – you know, to bring supply back up to snuff.

Jerome Powell, Fed Chairman – WSJ 6/20/21

According to the National Association of Realtors, the median existing-home sales price for a U.S. home reached \$350,000 in May. Existing home prices have skyrocketed 24% over just the past twelve months ... registering the largest year-over-year increase in over two decades.

Sales prices have been climbing sharply since last summer, when lockdowns related to the Covid-19 pandemic eased across the country and many people rushed to find more space and bigger homes. Others working remotely seized on the chance to move to a less expensive city.

Nicole Friedman – WSJ 6/22/21

China's current economy is built on the same prepandemic drivers. But while their economy continues to expand, the pace is slowing due to weaker export demand and supply bottlenecks. Coronavirus outbreaks have also hurt consumer spending. More recent economic forecasts have downgraded China's GDP growth to below 9% for the full year.

Meet the new Chinese economy, same as the old Chinese economy.

Mike Bird – WSJ 6/16/21

From a global standpoint, this pandemic is not over by a longshot. The Delta variant is now surging across Africa, where just 1.1% of its population of 1.3 billion people are fully vaccinated. The variant, which initially tore through India in the spring and is twice as contagious as the

original strain, is expected to make up half of the Covid-19 infections in the U.S. by mid-July.

It is frightening to see what is going on across the continent.

John Nkengasong, Africa CDC director – WSJ 6/28/21

South America, with just 5% of the world's population, now accounts for more than 25% of all global coronavirus deaths. The region's per capita death rate is eight times the world's average.

While infections and deaths from Covid-19 are decreasing in the U.S. and other nations, South America has turned into the pandemic's epicenter.

Denise Garrett, CDC Epidemiologist – WSJ 6/21/21



Yale University's U.S. One-Year Confidence Index, which tracks investment expectations in the coming 12 months, recently hit its highest level since 2012. Another survey, by Natixis Investment Managers, found that investors expect 17% returns after inflation over the long run. For those of us keeping score: U.S. stocks have returned about 7% after inflation since 1926.

Optimism is as American as hot dogs and apple pie. Too much optimism, though, is about as good for you as eating a few dozen hot dogs and slices of pie.

Jason Zweig – WSJ 7/2/21

Individual investors increased their stock holdings during May to their highest levels in over three years. According to the American Association of Individual Investors, allocations to *risk assets* were increased for the fourth straight month.

There is no guarantee that it continues this way, of course. Bring enough fear into play and investors will bolt for the exits no matter how low cash yields are, just as they did in March last year.

James Mackintosh – WSJ 6/27/21

A recent survey found that investors are generally concerned about three areas: inflation, Covid-19 variants, and Fed policy. With all major indexes trading at *nose-bleed* levels, many investors believe the markets have already priced in all the potential good news. The expectations for future fiscal stimulus (infrastructure spending) and accommodative monetary policy (bond purchases/rate hikes) have also diminished.

So, even as stocks march upward, and volatility is subdued, there is growing anxiety that future gains will be harder won. Inflation, in particular, has proved tricky for investors to make bets on.

Akane Otani – WSJ 6/30/21

Markets have been on quite a ride since the pandemic low reached on March 23, 2020. High valuations alone suggest investor expectations should be modest at best. These are the times when risk management should be the priority ... not necessarily return enhancement.

I hope everyone had a great Fourth of July weekend.

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