CORRIGAN FINANCIAL, INC.

Market Update: August 2021

Strong second quarter earnings helped stocks to yet another solid month of performance in August, as domestic and foreign equity markets advanced 2.85% and 1.90%, respectively. The S&P 500 index has had seven straight months of gains, reaching new highs on more than 50 days … and all this without at least a 5% decline along the way.

Equity performance has been fueled by massive amounts of fiscal and monetary stimulus since the onslaught of the pandemic. U.S. stocks are up over 20% year-to-date … and that is on top of last year's nearly 70% rebound from the market low recorded on March 23, 2020.

> **No market goes up forever, and this one could use a breather … But there's a problem with trying to predict a correction: not getting one.**
>
> **Ben Levisohn – Barron's 9/3/21**

Bond prices declined in August, as yields increased modestly. The yield on the 10-Year U.S. Treasury note rose to 1.3%, after four straight months of declines. (Remember that bond yields and prices move in opposite directions.)

The Federal Reserve continues to maintain the federal-funds rate at a zero-based target, in addition to buying $120 billion of bonds (U.S. Treasuries and mortgage-backed securities) each month. These actions have depressed bond yields and forced investors into riskier assets.

> **With stocks trading for about 21 times the current year's expected earnings, bonds yielding little, and cash yielding less than nothing after accounting for inflation, investors face tough asset-allocation decisions.**
>
> **Nicholas Jasinski – Barron's 9/3/21**

Home prices have exploded due to low inventories and ultralow interest rates. The National Association of Realtors reported that the median existing-home sales price reached $359,900 in July … a 17.8% increase from a year earlier. However, pending sales, an indicator of near-term activity, have now declined for two straight months.

> **It is still a very swift, fast-moving market, but there is some indication that the market is less intensely heated now than before.**

Lawrence Yun, National Assoc. of Realtors – WSJ 8/23/21

The Commerce Department reported that household incomes rose 1.1% in July, as families started receiving child tax credits that were part of the spring pandemic relief package. Consumer spending declined 0.3% last month, due to concerns (fears, restrictions, and mask mandates) regarding the Covid-19 Delta variant.

> **The worsening of the health situation is weighing on activities that we initially thought would thrive during the summer. But still people are spending. It's not the same type of environment in prior waves where you had a big pullback.**

Gregory Daco, Oxford Economics – WSJ 8/27/21

Jobless claims are at pandemic lows, with first-time unemployment claims totaling 340,000 for the week ended August 28. The four-week moving average of claims fell to 355,000, also a pandemic low.

> **Claims once again weathered the Delta wave. That employers are laying off fewer workers is a testament to how Americans are steadfast in resuming normal lives and how desperate employers are to keep the workers they have.**

Robert Frick, Navy Federal Credit Union – WSJ 9/2/21

According to the Labor Department, there were 12.2 million claims made for continued unemployment benefits through all programs for the week ended August 14, including 9.2 million for two temporary federal pandemic programs. These two programs expire on Labor Day … along with the $300 weekly enhancement to benefits.

> **Bottom line, we now have the lowest initial filings for claims and smallest level of continuing claims since everything changed in March last year.**

Peter Boockvar, Bleakley Advisory Group – Barron's 9/2/21

The U.S. economy added 235,000 jobs in August (Labor Department report on September 3), well below the 720,000 jobs expected by economists. Payroll growth averaged about $1 million for each of the previous two months. The unemployment rate dropped to 5.2%, from 5.4% in July.

> **The silver lining: It is good news for investors worried that the central bank will begin tapering its emergency bond buying program sooner than later. The massive miss undermines growing expectations that reductions in the $120 billion in monthly Treasury and mortgage-backed securities purchases will begin this year.**

Lisa Beilfuss – Barron's 9/3/21

Employment remains 5.6 million workers below prepandemic levels, and the total workforce remains smaller by 2.9 million people. Labor supply is the issue … not the demand for workers … and the shortage is being exacerbated by rising coronavirus infections. Available jobs in the U.S. are at record levels, with openings in excess of the number of Americans seeking employment.

The labor market recovery hit the brakes this month with a dramatic slowdown in all industries. Ultimately, the Delta variant wave is a harsh reminder that the pandemic is still in the driver's seat, and it controls our economic future.

Daniel Zhao, Glassdoor – CNBC 9/3/21

While wages are up, so is inflation. With consumer prices rising 5.4% in July from a year earlier, inflationary effects have more than offset wage increases. Real (after inflation) average hourly earnings have actually declined for seven consecutive months … for an overall 2% decline in purchasing power.

We think inflation will continue to run hotter than it has since the financial crisis, but it's hard for us to see inflation much over 2.5% once many of the reopening-related pressures start to dissipate.

Michael Fredericks, BlackRock – Barron's 9/3/21

Factories and service providers reported slower growth in August, according to surveys of purchasing managers by forecasting firm IHS Markit. The European economy also saw slower growth, while surveys in Japan and Australia saw declines in economic activity.

We don't see Delta as a cause for major panic. Rather than pushing economies back into recession, the most likely outcome is that it pushes back the recovery in the shorter term.

Ben May, Oxford Economics – WSJ 8/23/21

China's political rhetoric is taking center stage, as Beijing continues to focus its efforts on realigning the relationship between private business and the state. The goal is to ensure companies do more to serve the Communist Party's economic, social, and national-security interests.

In the U.S., the government often acts as a servant to business interests, whether it's tech or other sectors. In China, the party-state wants the business community to serve its development objectives and is willing to sacrifice corporate profits to make that happen.

Gabriel Wildau, Teneo – CNBC 8/18/21

The world's second largest economy is struggling with outbreaks of the Delta variant, a soft labor market for young people, and continuing problems with heavily indebted real estate developers. Reports on China's economic weakness were further corroborated by a significant drop in the August services sector index.

If government support isn't forthcoming soon, investors should brace for a weaker than expected Chinese economy in early 2022.

Nathaniel Taplin – WSJ 8/31/21

About 3.5 million Americans decided to leave the workforce, and they have yet to return. Included in the number are the nearly 1 million Americans aged 65 or over that have decided to call it a career. Other reasons for the labor shortfall include enhanced unemployment benefits, health issues associated with *long covid*, the increase in *homeschoolers*, and overall demographic influences that were building well before the pandemic.

We are in an odd situation where it's unclear if labor is scarce or abundant. Many employers can't seem to find enough qualified workers, but the August jobs report said 8.4 million are unemployed and millions more underemployed.

John Mauldin - Mauldin Economics 9/4/21

Labor supply is critical to economic growth. Gross Domestic Product (GDP) is simply the product of two factors: the number of workers times productivity. If the number of workers declines, GDP will fall by the same rate unless productivity substantially increases.

Labor shortages are not the only headwind that investors have to consider. Here's a small sampling of the immediate challenges:

- Economic growth and earnings growth have peaked and will begin to decelerate.
- The Fed has promised to start reducing (tapering) its bond buying program in the near term.
- The Biden administration has proposed tax hikes for corporations, estates, and individuals.

There are also plenty of longer-term issues that need to be addressed … hopefully sooner rather than later. Budget/debt management should be at the top of this list. How do we fund the expansion of entitlement programs when we can't pay for the ones we already have?

Markets can change direction quickly. We all saw this at the start of the pandemic. Still, many investors tend to have short memories.

> **Try recalling how frightened you felt as an investor in February and March 2020. You can't can you? … No matter what you think now, you were terrified then. Everyone was.**
>
> **Jason Zweig – WSJ 9/3/21**

Returns have been very strong during this recovery phase. But at today's stock valuations, ongoing gains will be difficult to come by. Volatility should also be on the rise. Be patient, and stay the course.

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