



CORRIGAN FINANCIAL, INC.

Market Update: July 2019

Global stock markets were virtually unchanged during July, as U.S. stock returns of just over 1% were offset by small losses on foreign equities. On the last day of the month, the Fed cut interest rates by a quarter-percentage point. The enthusiasm surrounding the Federal Reserve's first rate cut in a decade was somewhat diminished when Chairman Powell suggested the cut was not necessarily the beginning of a long easing cycle.

Powell increased the uncertainty around the direction of policy. The discussion around the future path of interest rates was ham-handed and probably undid a lot of the benefit of the rate cut today.

Scott Minerd, Guggenheim Partners LLC – WSJ 7/31/19

Stocks have rallied during the year on the anticipation of Fed rate cuts. For the first seven months of the year, global stock markets are up over 16 percent. U.S. stocks and international stocks have advanced more than 20% and 12%, respectively. Larger companies have outperformed smaller entities, while growth strategies have continued to outpace value strategies.

They always say the market's a greedy beast and no matter what it gets, it wants more.

J.J. Kinahan, TD Ameritrade – WSJ 7/31/19

The rate cut decision effectively undid the Fed's last rate hike in December. It also marks the end of a four-year effort to *normalize* monetary policy. Over the past 25 years, the Fed has pivoted from raising to lowering rates four other times. In each of the four previous times, the Fed followed up with additional rate cuts.

With unemployment at or near half-century lows and the economy expanding at just over two percent, many prognosticators disagreed with the rate cut. Still, we live in an integrated global economy. The European Central Bank currently has a policy rate of minus 0.4% ... nearly 3 full percentage points below the Fed's.

U.S. rates can diverge to some extent from global rates, but there's a limit to how far that process can go because of integrated capital markets.

Richard Clarida, Fed Vice Chairman – WSJ 7/30/19

Yields for 10-year government debt in nine countries, including Germany, Japan, Sweden, and France, are trading below zero. According to Deutsche Bank Securities, about 25% of global government bonds trade at negative yields.

U.S. interest-rates are out of line with the rest of the world. If we don't get them back in line, we'll have a real problem with too-tight money.

James Bianco, Bianco Research – WSJ 7/28/19

Short-term yields are sensitive to monetary policy, while longer term yields are influenced by economic expectations. The U.S. yield curve is currently inverted ... meaning that shorter-term rates are higher than some longer-term rates. And while there is no sign of recession on the horizon, an inverted yield curve is considered to be a precursor to economic downturns. An inverted yield curve may also be confirming that Fed policy is too tight.

Maybe the fed-funds rate is a little bit out of kilter with market-determined rates.

Robert Kaplan, Dallas Fed President – WSJ 7/30/19

Many of Wall Street's biggest investors are holding the same stocks. According to a study by Bank of America Merrill Lynch, the overlap of the top 50 stockholdings between mutual funds and hedge funds is at record levels. Investors continue to crowd into the top performers, while comparatively cheap stocks are being ignored.

The huge world of investible assets has shrunk down to a small cohort. We're all in this echo chamber where everyone goes to the same dinners and drinks the same Kool-Aid.

Savita Subramanian, Bank of America Merrill Lynch – WSJ 7/28/19

Investors have avoided contrarian and value-oriented strategies as their performance has waned. According to data from DWS Group, the valuation gap between growth and value stocks is currently at record levels.

Investors are drawn to stocks that have performed well and risen fast. Yet some investors worry that the concentration of money in a short list of stocks could exacerbate market declines if bad news sparks a rush to exits.

Ira Iosebashvili – WSJ 7/28/19

For the second year in a row, U.S. government debt issuance is expected to top \$1 trillion. Deficits usually decline during economic expansions, and that was the case during the first six years of this expansion. But deficit spending is now accelerating, and entitlement obligations will almost certainly amplify budget shortfalls over the coming decades.

Austerity is on no one's political agenda at present, and even though this is the time in the business cycle where you really ought to be cutting back on red ink, there's simply no appetite for it.

Louis Crandall, Wrightson ICAP – WSJ 7/29/19



The July employment report (August 2) indicated solid jobs growth and consistently low unemployment. The U.S. economy may be slowing down, but it is definitely not stalling. With economic growth at or above 2% and inflation in check, what do we have to worry about?

Some would say plenty. The world is awash in debt, and no one seems to care. Chinese and European economies are struggling. The trade conflict between the U.S. and China is starting to really heat up. And ... maybe more importantly, what are negative interest rates telling us about the state of the global economy?

Nobody knows exactly what the negative interest rates overseas mean. Why are they occurring? Are they sustainable, and what are the implications? We have never lived through this before.

Howard Marks, Oaktree Capital Management – WSJ 8/4/19

So, let's simplify our global economic predicament. Aggressive monetary and fiscal policies have left us with heavy debt burdens and zero-based interest rates. The end product ... slower overall economic growth. At some point, we will have to acknowledge this dilemma and embrace a more sustainable game plan.

Daniel G. Corrigan, CPA/PFS, CFP®