CORRIGAN FINANCIAL, INC.

Market Update: July 2020

Global stocks advanced for the fourth straight month with returns of just over 5% during July. Since the 21% decline in the first quarter, global stocks have now rebounded more than 25%, marking their best four-month percentage gain in over 20 years.

Technology stocks continued to lead the way. On the last day of the month, for example, Apple's market capitalization grew by more than $170 billion, a one-day gain that is larger than the current market value of either Nike or McDonald's.

The U.S. economy shrank at an annualized rate of 32.9% during the second quarter … somewhat better than forecasts, but still a terrible number. This is the initial estimate by the Commerce Department, and it reflects the largest ever quarterly tumble in more than 70 years of recordkeeping.

> **We already know that activity rebounded strongly in May and June, setting the stage for a strong rise in GDP in the third quarter. Nevertheless, with the more recent resurgence in virus cases starting to weigh on the economy in July, a continued "V-Shaped" recovery is unlikely.**
>
> **Andrew Hunter, Capital Economics – Bloomberg News 7/30/20**

The headline number also looks particularly bad because it is quoted on an annualized basis, as if the rate of decline were to persist over a twelve-month period. Thankfully, that is not going to happen.

> **First, the annualized figures that economists like to use are pointless at a time like this. The headline number effectively represents how much gross domestic product would decline if the lockdowns meant to contain Covid-19 continued across four quarters. They didn't and won't, so the real decline in output was more like 9 percent. Still a terrible number, but not exactly a third of the economy.**
>
> **Lisa Beilfuss – Barron's 8/1/20**

On an actual basis, economic activity in the U.S. has declined by 10.6% during the first half of 2020. Consumer spending has accounted for more than three-quarters of the GDP decline. Spending on durable goods fell by only 1.4 percent, probably because people elected to spend government stimulus checks on big-ticket items. Enhanced unemployment benefits are expiring, however, and we don't have a new fiscal package in place just yet.

> **Plenty of stimulus didn't get spent, though. The personal saving rate – savings as a share of after-tax income – swelled to 25% in the second quarter. That should support spending in the current quarter, but the combination of Covid concerns and worries over the economy will continue to limit people's willingness to part with that cash.**

Justin Lahart – WSJ 7/30/20

The rebound in the labor market appears to be slowing. The Labor Department reported that the number of workers applying for initial unemployment benefits increased for the second straight week. For the week ended July 25, 1.43 million people applied for initial benefits, and the total number of people receiving benefits increased by 867,000 to 17 million for the week ended July 18.

> **We are still seeing unprecedented kinds of layoffs. There really has been this stalling out of the improvement that we were seeing.**

Heidi Shierholz, Economic Policy Institute – WSJ 7/30/20

An estimated 1.85 million businesses closed or temporarily suspended operations in the U.S. during the second quarter, according to Oxxford Information Technology. Oxxford also forecasts that total losses this year will be greater than those during the Great Recession, when about 4.5 million businesses failed.

> **It's hard for small businesses to weather the storm when they don't know when this will be over.**

Michael Stepner, Opportunity Insights – WSJ 7/22/20

Pandemic related restrictions have significantly impacted U.S. retailers, with many closing stores or seeking bankruptcy protection. According to BankruptcyData.com, 24 public and large private retailers have filed for bankruptcy this year … the total for all of 2019 was 20 retailers.

> **Heavy debts, a glut of stores and a struggle to keep up with changing consumer tastes and habits are nothing new for many retailers, but the mix proved to be disastrous during the pandemic, which decimated sales.**
>
> **Al-Muslim/Biswas – WSJ 7/22/20**

As many as 25,000 U.S. retail stores will close in 2020, according to global market-research firm Coresight Research. This would be a record number of closings and more than double the 9,832 stores closed last year.

> **You're going to see, as time goes on, how the dominoes fall. The big question for any retailer is if they close tomorrow, would anyone care?**
>
> **Michael Appel, Appel Associates LLC – WSJ 7/22/20**

The U.S. budget deficit for fiscal 2020 is estimated to exceed $4 trillion, while the national debt weighs in at $26 trillion. Our government has already passed $2.4 trillion in coronavirus stimulus monies, and another $1 trillion plus package is expected to pass relatively soon. At some point, we will have to come up with a plan to pay for all this stimulus.

> **From my perspective, regardless of political affiliation, it's not about if taxes will increase in the future, it's more a matter of when will they increase, by how much, and who ultimately will pay them.**
>
> **Michael Arone, State Street Global Advisors – Uncommon Sense 6/29/20**

So, just how important has government stimulus been to the U.S. economy? It is estimated that U.S. fiscal and monetary stimulus pumped in over $5 trillion during the three months ended in June. That compares with U.S. nominal GDP of $4.85 trillion for the quarter. In other words, the stimulus was so massive that it exceeded the nation's output for a single quarter.

Future tax hikes will almost certainly depress stock prices. Empirical Research Partners estimates that all of the margin improvement by S&P 500 companies since 2015 can be attributed to lower tax rates. That tailwind may soon turn into a headwind, as higher taxes will ultimately reduce economic growth and lower investment returns.

GDP for the eurozone fell 40.3% on an annualized basis, exceeding the U.S. economic decline. The drop represents a 12% decline from the previous quarter … and by far the biggest fall since records began in 1995.

The European Union reached an historic agreement to fund a $2 trillion spending package. The package includes an $862 billion coronavirus recovery plan which is partially funded by the issuance of common bonds … something the EU has never done on such a scale. The recovery plan will offer government grants to help southern members, such as Italy and Spain, prop up their struggling finances without incurring additional debt obligations.

> **Having an agreement on fiscal coordination in a time of crisis … probably gives Europe a level of stability it has lacked. That really is a big deal.**
>
> **David Kelly, J.P. Morgan Asset Management – WSJ 7/21/20**

Payroll employment in the U.S. fell 13% from February to May, but personal income rose by 4% due to government stimulus and amplified unemployment benefits. Countries that belong to the eurozone don't have that fiscal flexibility. They are generally constrained because they do not print their own currency. Going forward, that may not be the circumstance.

> **The agreement is the bloc's first step toward a fiscal union. The package's size is less significant than how it is financed with bonds that are the obligation of the EU itself, rather than its individual members. It will not make or break the European recovery: It's less than any package the U.S. Congress is likely to approve. But it is well targeted at the hardest-hit economies …**
>
> **Greg Ip – WSJ 7/22/20**

The housing market typically accounts for over 15% of the U.S. economy. Home building, mortgage applications, and home sales are all in recovery mode. The National Association of Realtors (NAR) reported sales of previously owned homes rose 20.7% in June over the prior month, the biggest monthly increase on record. Mortgage rates are also at or around historical lows.

> **The housing market is hot, red hot. As we are coming out of the lockdown, we see this backlog of buyers … trying to take advantage of the record-low interest rates.**
>
> **Lawrence Yun, NAR Chief Economist – WSJ 7/22/20**

Monthly activity, however, still remains well below pre-pandemic levels. Hurt by historically high prices and tight supplies, June sales were actually down 11.3%

compared to a year earlier. NAR reports there were 1.57 million homes for sale at the end of June, down 18.2% from the previous year. In a related Census Bureau survey for the week ended July 14, about one-fourth of American adults missed their latest mortgage or rent payment or had little confidence that they could make the next payment on time.

The dollar had its worst monthly decline in nearly a decade. Investors are selling the dollar and buying the currencies of countries with lower infection rates … betting on additional government stimulus to backstop the U.S. economy.

A declining dollar, low interest rates, geopolitics, and overall economic uncertainty have propelled gold to all-time highs. Over the years, gold has been considered a universal currency, a hedge against high inflation, or protection against a falling dollar.

> **The factors that drive gold prices tend to fluctuate. It is a fickle kind of asset.**
>
> **Suki Cooper, Standard Chartered Bank NY – WSJ 7/24/20**

Currently, buying gold is considered to be a bet against economic growth. Over the past 12 months, gold has returned more than 30% as its price approaches $2,000 an ounce.

> **So, $2,000-an-ounce gold might not be far off. But even that wouldn't be gold's highest real value ever. Adjusted for inflation, gold's settlement price of $825.50 on Jan. 21 1980 becomes $2,722.18 today, according to Dow Jones Market Data. That's still a ways away.**
>
> **Nicholas Jasinski – Barron's 7/23/20**

We are well into "earnings season", and company results have been better than expected. Earnings are still very weak, however, as *the bar* was set quite low.

The surge in stock values from the market lows of March 23 is due to rising stock prices … not rising earnings. So, we currently have a very expensive stock market, as the markets appear to have already priced in a near-term earnings recovery.

As the U.S. economy suffered through a decline in output of $500 billion, the total market value of U.S. stocks swelled by approximately $7 trillion. The top five stocks … Apple, Microsoft, Amazon, Google and Facebook … have powered a significant portion of market performance. These five stocks now represent a concentration of nearly 23% of the S&P 500 market capitalization.

> **An old axiom "pigs get fat, hogs get slaughtered" suggests, being overly greedy can be an investor's ruin. Remember, greed is not a financial issue – it's an emotional issue. I don't know if the concentration problem is a bubble set to burst at some point. But navigating that possibility doesn't require trying to define it and/or forecast the timing of its popping, if it is indeed a bubble. We continue to recommend that investors remain disciplined – especially with regard to periodic rebalancing/profit-taking. Remember, successful investing is not about what you know (or don't know), but what you do.**

Liz Ann Sonders, Charles Schwab – Advisor Perspectives 7/28/20

Uncertainty remains widespread. In the short-term, we have the virus, civil unrest, U.S.-China relations, and the upcoming presidential election. Longer-term, we have to manage through the massive accumulation of debt, aging demographics, anti-globalization influences, and geopolitical instabilities.

> **Anybody who claims to have a firm handle on the economy's path is either delusional or lying.**

Joshua Shapiro, MFR Securities – Barron's 8/1/20

We should be prepared for more of a W-shaped recovery. So, don't be surprised when the economy appears to be stalling. Stay disciplined and remember … "two-steps forward, one-step back".

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