CORRIGAN FINANCIAL, INC.

Market Update: June 30, 2020

Domestic stocks returned just over 2% for the month of June, ending their best quarter in over 20 years. During the first two quarters, U.S. stock performance reflected an almost perfect *mirror image* … gaining 22% during the second quarter, after losing nearly 21% during the first three months of the year.

Foreign stocks, helped by strong performance from emerging market equities, returned 4.5% during June. For the quarter, foreign stocks gained just over 16% … but returns are still off 11% year-to-date.

> **We have entered an important new phase and have done so sooner than expected. While this bounce back in economic activity is welcome, it also presents new challenges – notably, the need to keep the virus in check.**
>
> **Jerome Powell, Federal Reserve Chairman – WSJ 6/29/20**

The 10-year U.S. treasury note, which yielded 2.7% at the beginning of 2019, had a yield of 1.9% to start 2020. Six months later, the yield has plummeted to 0.66% … which, when you adjust for inflation, offers investors a *real return* in negative territory. Declining yields fueled solid six-month gains for domestic bonds. With rates at historical lows, however, the prospects for future returns do not look all that promising.

For many, the market rally during the second quarter was a huge disconnect from the economic impact of the pandemic. That disconnect, however, can be explained away by massive monetary and fiscal stimulus. Historically low interest rates also help to support relatively high stock valuations.

> **Massive stimulus by the Fed and on the fiscal side has propelled the stock market's recovery at a speed unlike we've ever seen. But there's a perceived disconnect between what the market has done**

> **and the economic recovery. The reality is, the second half of the year may see a lot of choppiness.**

Liz Ann Sonders, Charles Schwab & Co. – WSJ 6/30/20

The pandemic has wreaked havoc on the supply/demand for oil. Oil prices, which started out the year at $60 per barrel, fell below $0 for the first time ever in April … only to end the current quarter at or around $40 per barrel.

> **This is going to be an ongoing thing because there are so many different elements we're not sure of. I can't remember a time when you would be looking at the (supply/demand) balances and be off by millions of barrels a day.**

Andy Lebow, Commodity Research Group – WSJ 6/30/20

Gold prices ended the quarter up 13%, and closed above $1,800 an ounce for the first time since September 2011. Economic uncertainty and low interest rates have helped to push gold prices up nearly 20% for the year.

The International Monetary Fund updated its World Economic Outlook and downgraded 2020 global growth to -4.9%, the largest contraction since 1946. For the first time ever, all regions are likely to experience negative growth this year. The IMF also downgraded global growth for 2021 to 5.4% … although it will still be the fastest pace since 1964.

> **While global economic growth should be slow for the rest of the year, it is expected to surge in 2021 and investors should start asking whether they are positioned for an eventual global economic recovery.**

J.P. Morgan, Market Insights – 6/29/20

A surge in coronavirus cases has caused several states, including Florida, Texas, California and Arizona, to impose new restrictions and roll back re-openings. Investors continue to weigh the impact of new infections against the expectations of more stimulus efforts from central banks.

The question on investors' minds is whether those two trends – spreading coronavirus, improving economy – can continue to exist at once, or if new outbreaks will materially impact progress on the reopening of the economy and delay its recovery. Stocks will lack a concrete near-term direction until an answer becomes clearer.

Nicholas Jasinski – Barron's 6/30/20

According to a University of Chicago working paper, unemployment benefits, including the additional $600 payment, now represent 134% of the median income they replaced and double the income for one in five recipients.

These very generous benefits, which are scheduled to expire at the end of July, enabled household spending to spike a record 8.2% in May … more than double the all-time high since record-keeping began in 1959. Spending in May was still down about 12% from pre-pandemic levels.

Consumer spending sprung back to life in May as the nation reopened. But, don't be fooled, the rebound was only partial and largely supported by April's massive fiscal stimulus injection – consumers are still fearful.

Gregory Daco, Oxford Economics – 6/26/20

The pandemic will probably leave its mark on globalization, as governments are citing the crisis as they erect barriers to trade. For example, Japan is now paying companies to relocate from China, while France pledges independence for crucial medical supplies.

What the pandemic has done is highlight some of the ways that globalization may have gone a bit too far. A decade of disease, natural disasters and trade wars has shown how companies have been putting a huge amount of risk in global supply chains.

Peter Anderson, Cummins Inc. – WSJ 6/19/20

Foreign trade is expected to decline by a third this year. Going forward, more economic activity will be classified as vital to national security. Costs will rise, growth will slow, and low-income countries will get hit the hardest. On the other hand, online work and remote services (like telemedicine) could open up entirely new global opportunities.

> **It's not as simple as saying globalization is over. Globalization will be reshaped.**
>
> **Susan Lund, McKinsey Global Institute – WSJ 6/19/20**

The pandemic has also exposed the complexity of many global supply chains. Medtronic PLC, a Minnesota-based maker of medical devices, is a good example. They make ventilators that contain more than 1,500 parts from 100 suppliers in 14 countries.

Looking ahead, there is still a considerable amount of uncertainty. The lack of visibility is everywhere … employment, corporate earnings, geopolitics, civil unrest, the November elections, and future government stimulus efforts to name a few. Still, the number one concern is the potential for a second wave of coronavirus cases.

> **Nearly halfway through 2020, one of the year's many ironies is that its number is associated with perfect vision. Just as no one could foresee the calamity of the coronavirus when the year began, the view forward to the second half remains foggy.**
>
> **Randall W. Forsyth – Barron's 6/26/20**

Two-steps forward … one-step back: Just before the July 4 weekend, the Labor Department reported the unemployment rate fell to 11.1% in June, with the U.S. economy adding 4.8 million jobs. While unemployment is still at historically high levels, the report showed people are getting back to work faster than expected. Then again, new coronavirus cases reported in the U.S. just reached a single-day record.

Individual investors have apparently held up quite well during all the confusion. Of the 5 million investors in Vanguard retirement plans, almost 95% did not make a single trade during the first four months of 2020 … and fewer than 1% moved their money entirely out of stocks.

> **One of the biggest surprises in the first half of 2020 was what didn't happen: Most, individual investors, despite their reputation as nervous Nellies who sell into every panic, didn't dump their stocks even when the market meltdown was at its worst.**
>
> **Jason Zweig – WSJ 6/26/20**

One final thought on *downside math*. Remember, after absorbing a 20% loss, investors need a 25% gain to fully recover. That's why U.S. stocks remain down 3% in 2020 after *mirror image* quarters. It's also a good example of the importance of managing downside risk.

Enjoy the summer months, and stay safe.

Daniel G. Corrigan, CPA/PFS, CFP®