CORRIGAN FINANCIAL, INC.

Market Update: April 2019

Global stock markets continued their impressive advance with gains in excess of 3% during April. With the S&P 500 Index recording its best four-month start in more than 30 years, U.S. stock returns have now reached 18% for the year. Foreign shares also have solid gains of over 13% year-to-date. Global equities have added a remarkable $10 trillion in market value since the start of the year.

> **The robust recoveries from the fourth quarter's slide came after the Federal Reserve said it would be patient in raising interest rates, a declaration that would place a blanket of calm over equity, bond, and currency markets.**
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> **Randall W. Forsyth – Barron's 4/29/19**

Earnings reports from U.S. companies have exceeded expectations, with 76% of those reporting beating analysts' forecasts, according to Factset. Corporate earnings are now expected to contract by only 1.6% from a year earlier, less than the 4% earnings decline initially projected.

The U.S. economy (Gross Domestic Product) grew by 3.2% in the first quarter, an upside surprise for investors. This was a considerable increase from the 2.2% pace of last year's fourth quarter. The first quarter measure was helped by increases in net exports and inventories, which contributed 1.0% and 0.7%, respectively … or more than half of the GDP growth for the period.

> **Chances are that international trade will worsen and that inventories will grow more slowly next quarter, cutting overall real GDP growth to a below 2% annualized pace. As a result, investors should welcome the confirmation that growth is not stalling, but should also be aware that a downshift is still occurring as expected.**
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> **J.P. Morgan Asset Management – 4/29/19**

Strong U.S economic growth and declining inflation present somewhat of an enigma for economists. Core inflation, which excludes volatile food and energy categories, rose just 1.6% in March from a year earlier. The Fed's target for core inflation is 2% … a level reached only briefly last year.

The central bank increasingly has become worried that too-low inflation is becoming ingrained in consumer expectations. Since expectations feed into actual prices, the risk is that inflation will remain persistently below the Fed's target. That would be problematic if a recession were to hit since deflation, or falling prices, would be that much closer.

Justin Lahart – WSJ 5/1/19

Equity markets were actually anticipating that the Fed would lower interest rates in the near future. For now, the Fed is taking a wait-and-see approach … playing down concerns that soft inflation may indicate broader economic weakness.

Overall the economy continues on a healthy path, and the committee believes that the current stance of policy is appropriate. We don't see a strong case for moving rates in either direction.

Fed Chairman Jerome Powell – WSJ 5/1/19

China's economic growth came in at 6.4% for the first quarter on strong industrial production. The first quarter results were described by the National Bureau of Statistics as "relatively stellar". China's economy has been struggling to deal with high debt levels and excess capacity. In response, Beijing has employed targeted stimulus efforts to cut taxes and make more credit available to boost its economy.

Policy supports are beginning to show up in the economy.

Grace Ng, JPMorgan – WSJ 4/17/19

The combined economies of the 19 eurozone nations grew by an annualized 1.5% during the first quarter … up from the 0.9% pace of last year's fourth quarter. Compared with a year earlier, GDP was 1.2% higher. In response to last year's slowdown, the European Central Bank has halted plans to raise key interest rates.

For Europe, even though economic growth remains disappointing, fears of political flare-ups that dominated headlines at the beginning of 2019 have receded: From spendthrift policies in Italy to the instability of Britain dropping out of the EU with no agreement on how to settle future ties.

Davies/Chilkoti – WSJ 5/1/19

Approximately 29% of all global government bonds are trading with a negative yield. This effectively means that investors are willing to pay governments to keep their money safe. Why is this happening? For the most part, negative rates are a product of slower economic growth, muted inflation, and central bank stimulus efforts.

> **The expanding pool of such bonds – which guarantee that a buyer will receive less in repayment and periodic interest than the buyer paid – highlights how expectations for growth in much of the developed world have deteriorated.**
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> **Daniel Kruger – WSJ 4/29/19**

Economic growth for the U.S., China, and the eurozone (economies that collectively account for more than half of world output) has picked up nicely in the first quarter. At least for now, the concerns over a looming recession seem to be fading. Has the runway to the next recession been extended? Is the economic recovery going into *extra innings*? Only time will tell.

The S&P 500 Index and the NASDAQ Composite Index are once again trading at all-time highs. At the start of the year, only 23% of global stocks traded above their 200-day average … now 72% are trading above their 200-day average. U.S stock valuations are now in the 84th percentile when compared against valuation levels over the past 15 years.

> **Double-digit returns aside, everyone won't get a trophy. That only happens in T-Ball, and this isn't T-Ball. This is the big leagues … Multiple expansion accounts for over 100% of this year's return. Growth will need to follow for investors to keep paying.**
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> **Matthew Bartolini, State Street Global Advisors – 5/1/19**

The past four months have been great for investors … a nice rebound from last year's market performance. But this is no time to become complacent. Equity valuations, especially in the U.S., are high, and global debt levels continue to expand. As always, stay the course, but maintain a healthy skepticism.

Daniel G. Corrigan, CPA/PFS, CFP®