



CORRIGAN FINANCIAL, INC.

Market Update: June 2019

With global central banks signaling their support, stock markets surged in June and ended the second quarter with solid gains. Large U.S. stocks have returned over 18% so far this year, marking their best first half performance in over 20 years. Global stock markets have recovered nicely after fourth quarter declines.

U.S. stocks are hovering around all-time highs, kept afloat by hopes that the Fed will begin cutting rates as soon as the July Federal Open Market Committee meeting. But are rate cuts sufficient to help what is ailing the economy?

Sonders/Kleintop, Charles Schwab – Advisor Perspectives 6/26/19

Do you remember when Fed Chairman Powell said in October that interest rates were a long way from neutral? Apparently, we've come a long way in just nine months. In early June, Mr. Powell communicated that the Fed would cut rates in response to a deteriorating economic outlook. Stock investors cheered, and bond yields declined. The yield on the 10-year U.S. Treasury Note closed the quarter at 2% for a decline of nearly a half-percentage point for the quarter. The 30-year mortgage rate, approximately 5% back in November, is now below 4 percent.

The collapse in bond yields since this spring has been stark, swift and global, upending expectations that the world's economy would be strong enough to support a return to normal monetary policy after years of easy money.

Kowsmann, Chilkoti, and Goldfarb – WSJ 6/23/19

U.S. economic growth for the second quarter is expected to come in somewhere below two percent. GDP growth in the first quarter grew at an unrevised 3.1%, after a 2.2% growth rate in the fourth quarter of last year. Corporate profits were flat in the first quarter and are expected to post small year-over-year declines in the second and third quarters, according to Factset.

In a slow-growing, but still healthy, economy, low rates are caffeine to investors willing to take on risk ... For the risk averse, investing in this environment is much trickier.

Salzman/Jasinski – Barron's 6/21/19

If the Fed lowers rates in July, it would be the first rate cut since 2008. The starting point for rate cuts has been drifting decidedly lower. Over the past seven rate-cut cycles, the first three started with rates above nine percent, and the next three started with rates averaging around six percent. The last was at a 5.25% starting point. If we get a rate cut in July, which the futures market is now pricing at a near certainty, the new cycle will initiate at the current 2.25 – 2.50% range. That is nothing short of amazing from an historical perspective.

The Federal Reserve doesn't have a lot of bullets, and as soon as next month it could start firing some of them off ... It would have been better for the Fed if the period of calm that allowed it to raise rates lasted longer, allowing it to stockpile more rate-cut ammunition. But that isn't the world any of us get to live in.

Justin Lahart – WSJ 6/24/19

Bond yields are currently indicating that the risk of recession is elevated. Yet, the stock market is communicating profound optimism. Who is right? Historically, the bond market has been the better prognosticator.

Like our major political parties, the stock and bond markets seem to live in two different worlds these days. The former sits at record levels, suggesting we live in the best of all possible worlds. The latter sees things as bad and only getting worse.

Randall W. Forsyth – Barron's 6/21/19

In a June survey by the WSJ, only 4.9% of economists expected the next recession to start this year. Nearly half expected a recession in 2020, and 37% didn't expect recession until 2021.

Do I think the market is priced to allow the possibility of a recession? Not in the U.S. The danger is that the market is already discounting a lot of great news for the future, and if that news does not materialize, then we're in trouble.

Rob Arnott, Research Affiliates – WSJ 6/30/19

China has been struggling with trade tensions and a declining economy, but the Shanghai Composite Index has still managed to advance 20% this year.

The index currently trades at 10.7 times expected earnings, well below the 16.8 multiple for U.S. stocks as measured by the S&P 500 Index.



You may have noticed that Bitcoin has more than tripled this year. Increased institutional support for cryptocurrencies and Facebook's introduction of its own Libra cryptocurrency have helped to drive the rally. Bitcoin remains 40% below its all-time high.

One thing that has my attention is Bitcoin. When it was around \$5,000 in April, I wrote here about a “glut of cash chasing scarce growth at a time of low rates. And that foretells go-go gains for goofy assets. Bitcoin will be the bellwether.” It recently changed hands at \$12,000.

Jack Hough – Barron's 6/28/19

We all know that the global economy is slowing, the yield curve is inverted, inflation expectations are plummeting, and global interest rates are collapsing. To make matters worse, as a share of the global economy, debt levels are higher now than they were in 2008. So, I guess it's a good thing interest rates are low.

We used to worry about the 3 D's – Demographics, Deficits, and Debt. Given the current trade environment, the three D's are now being redefined as – Demographics, Debt, and Deglobalization.

There is always something for investors to worry about, which is why Warren Buffett warned that once you have ordinary intelligence, success in investing is determined far more by temperament – the ability to ignore the noise of the markets and adhere to your well-thought-out plan that incorporates the risks of negative events.

Larry Swedroe, BAM Alliance – Advisor Perspectives 5/7/19

Market noise is intensifying, and central banks are controlling the narrative. June's job report (released on July 5th) has helped to support the premise that the economy is slowing but not stalling. Stay focused on the things you can control this summer. Start by updating your personal financial planning framework.

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