CORRIGAN FINANCIAL, INC.

Market Update: December 2021

Equity markets ended 2021 on a high note, with global stocks advancing more than 4% in December alone. U.S. stocks delivered yet another blockbuster year of performance, while foreign stocks saw solid, if somewhat less impressive, returns. The year will be remembered for heavy speculation by investors in meme stocks, special-purpose acquisition companies (SPACs), and cryptocurrencies.

> **Rip-roaring corporate profits and easy monetary policy have fueled the run.**
>
> **Karen Langley – WSJ 12/26/21**

For the past three years, U.S. stocks have been compounding at well over 20% per year. In fact, this has been the best three-year period for the major indexes since 1999. Also reminiscent of the tech bubble of the 1990s, nearly 70% of companies going public this year (through traditional initial public offerings) have been losing money.

> **This was the year of the risk asset. Anywhere there was risk and an opportunity for larger returns, we saw that pay off in spades.**
>
> **Shanta Puchtler, Man Group – WSJ 12/30/21**

U.S. retail sales rose 8.5% from November 1 through Christmas Eve compared to the same period last year, according to Mastercard. That is the fastest growth in 17 years. Sales at physical stores increased 8.1% compared to 2020 … and 2.4% compared to 2019.

> **The consumer is extremely healthy and has held up really well. No longer are people just staying home in sweatpants. They are going back to the malls … Higher prices didn't appear to sap**

demand, perhaps because many households are sitting on high levels of savings.

Stephen Sadove, Mastercard – WSJ 12/26/21

Filings for unemployment benefits in the U.S. remain at the lowest levels in more than half a century. In this tight labor market, employers are competing for workers. People are not being laid off; they are quitting their jobs at relatively high rates.

There are more than 11 million U.S. job openings, but only 6.9 million unemployed people looking for work. Overall, there are still 3.9 million fewer people working now than in February 2020. Labor costs are the primary input to the goods and services we consume … and they are on the rise.

That's the lowest ratio of unemployed people to job openings we've ever seen, and that is contributing to unprecedented tightness in the labor market.

Julia Pollak, ZipRecruiter – WSJ 12/8/21

The Federal Reserve plans to wind down (taper) their bond-buying program, which paves the way for interest rate hikes sometime next spring. Factoring in inflation … which is currently at a nearly four-decade high … that means "real" interest rates will effectively remain in negative territory for most, if not all, of 2022.

The Federal Reserve has retired the word "transitory" and now admits that inflation is high, but it isn't in any rush to do much about it.

The Editorial Board – WSJ 12/15/21

To put it another way, the Fed is starting to ease up on the accelerator and intends to apply the brakes in the near future. The current consensus is for three quarter-point rate hikes in 2022 and three more in 2023.

> **Last April, economists thought inflation would be around 2.5% right now. Instead, it's over 6%. Even by the forgiving standards of economic forecasting, that's a miss of epic proportions.**
>
> **Greg Ip – WSJ 12/8/21**

U.S. economic output is expected to expand at an annualized rate of 7% in the fourth quarter, according to the Federal Reserve Bank of Atlanta. In comparison, growth in the eurozone and China is expected to measure around 2% and 4%, respectively.

> **U.S. consumers, flush with trillions of dollars of fiscal stimulus, are snapping up manufactured goods and scarce materials … A booming U.S. economy is rippling around the world, leaving global supply chains struggling to keep up and pushing up prices.**
>
> **Tom Fairless – WSJ 12/21/21**

Major U.S. ports are now processing about 20% more containers than in 2019, while major European ports are roughly flat. Also, according to JPMorgan Chase, U.S. economic output is likely to exceed its pre-pandemic path early next year, while China and emerging markets are expected to remain approximately 2% below that path through 2023.

> **We threw a lot of support at [the economy] and what's coming out now is really strong growth, really strong demand, high incomes and all that kind of thing. People will judge in 25 years whether we overdid it or not.**
>
> **Jerome Powell, Federal Reserve Chairman – WSJ 12/21/21**

As we enter the new year, the U.S. economy is starting to downshift due to rising Covid-19 case numbers fueled by the highly contagious Omicron variant. Oxford Economics now anticipates U.S. gross domestic product to grow at an annual rate of 2.5% in the first quarter of 2022 … down from their 3.4% previous estimate.

> **I can see the economic damage mounting going into the first quarter (2022). It feels like a very similar dynamic as when *Delta* hit. Broadly speaking, each new wave is going to do a little less damage than the previous waves, as health care providers have gotten better at treating the virus and businesses are getting better at adjusting.**

Ed Yardeni, Yardeni Associates – WSJ 12/27/21

Economists generally believe much of the recent decline in output may only be delayed … not lost. Therefore, the consensus forecast is for growth to pick up later in the year.

> **So long as the new wave of Covid-19 cases persists, spending spirits will be dampened. But the Omicron surge won't last forever – indeed, given its very speed, and the recent experience of other countries, it might not last very long. In its aftermath, the spending dynamics that were in place last month might well reassert themselves.**

Justin Lahart – WSJ 12/23/21

Zero-based interest rates have enabled governments around the world to borrow enormous sums of money. All this stimulus, along with supply chain disruptions, has brought us rising asset values and escalating inflation.

Energy, lumber, and coffee are just some of the commodities that rose dramatically in price. Gold, the quintessential inflation hedge, actually declined in price … starting the year at $1,944 a troy ounce, and falling to just over $1,800 by year end.

> **It's an axiom of finance that a low cost of money pumps up the value of assets. Cheap, abundant capital can justify all manner of wild and wonderful investments, from electric vehicles to**

stationary bicycles (with tablet computers attached) to cryptocurrencies of no intrinsic value that can fluctuate 20% over a weekend.

Randall W. Forsyth – Barron's 12/23/21

We talk a lot about the world being awash in debt. But at this moment, we are also a world awash in cash … the result of government stimulus being pumped into peoples' bank accounts.

Americans are now running through large piles of extra cash they accumulated as a result of government stimulus.

Cambon/Torry – WSJ 12/23/21

You can almost hear the cash sloshing around, as it streams into housing prices, meme stocks, and cryptocurrencies. But as cash levels drop and day-traders go back to work, speculation is on the decline.

You've given people gambling money, and they've got nothing else to do so they're YOLOing (an acronym for "you only live once") into individual stocks. But that is gone away.

Andrew Lapthorne, Societe Generale – WSJ 12/20/21

Many investors were traumatized by The Great Recession of 2008/2009. As a result, the long bull market that followed … and still seems to have some legs … is considered by some to be *one of the most hated and feared* bull markets on record.

I've counted 71 panic attacks since the beginning of the bull market in 2009 – and they all turned out to be buying opportunities. You just kind of close your eyes and maybe lie down for a while, and then get up and see the market has recovered.

Ed Yardeni, Yardeni Research – ThinkAdvisor 12/14/2021

This is the time when all the *market gurus* offer their prognostications for the year ahead. Most give us predictions of moderate performance, while some outliers offer euphoria or anxiety. For most of us, these forecasts are about as worthless as the proverbial *bag of chips*.

> **Stock tips came from shoeshine boys in the 1920s and AOL chat room "experts" two decades ago. Now crypto-whispers offer advice on the next nonfungible token or doggy coin … Be warned, no one rings a bell at the top of the markets.**
>
> **Andy Kessler, "Old Wisdom for Today's Markets" – WSJ 12/12/21**

In the end, all we really want is the answer to one simple question … Is it time for investors to get in or get out of the markets?

> **Neither "get in" nor "get out" is an investing strategy; that's just gambling on moments in time. Investing should always be a disciplined process over time! It's not what we know (about the future) that matters, it's what we do along the way.**
>
> **Liz Ann Sonders, Charles Schwab & Co., Inc. – ThinkAdvisor 12/6/21**

We'll never possess that magical crystal ball. In its absence, let's remain calm and humble in the face of market uncertainty.

Daniel G. Corrigan, CPA/PFS, CFP®