CORRIGAN FINANCIAL, INC.

Market Update: June 14, 2020

The week started well, but ended on a down note for stocks. The Dow Industrials lost 1500 points, as the broad U.S. market declined 5% for the week. Global equities are now down nearly 8% year-to-date.

Interest rates also declined, as the 10-year U.S. Treasury Note dropped below 0.7% to end the week, after climbing as high as 0.96% last week. Declining interest rates suggest that investors do not expect a significant surge in economic growth and inflation. The bond market is also very confident that the Federal Reserve will do whatever it takes to keep rates at historical lows.

> **The markets came to the realization that we had come too far, too fast. We're still in the very early days of reopening the economy. The employment situation is still very precarious. And there's no playbook for reopening the economy after a multi-month shutdown.**
>
> **Timothy Skiendzielewski, Aberdeen Standard – WSJ 6/12/20**

The S&P 500 index made it back to positive territory on Monday … climbing back from a decline of more than 30% from February 19 to March 23. The tech-heavy Nasdaq closed above 10,000 for the first time on Tuesday.

> **There have been a number of indicators that have been in place for a number of weeks that would lead you to believe this all points to us coming out of a recession.**
>
> **Andrew Slimmon, Morgan Stanley – WSJ 6/8/20**

At the start of the week, the number of new coronavirus cases reported world-wide was the highest ever. Infections are on the rise in many developing countries like Brazil and India.

Some states, including Florida, California, and Texas, are also recording increases in coronavirus cases after lifting restrictions. Growing fears of a second wave of infections were the main driver for the Dow Industrials plummeting over 1,800 points on Thursday.

> **Thursday's Wile E. Coyote-style step off the cliff, in which the Dow Jones Industrial Average fell around 7% and the other major averages also plummeted, appears to have disabused some investors of one comforting idea: that a smooth reopening rebound would form the right side of the "V" in the recovery they anticipated.**
>
> **Randall W. Forsyth – Barron's 6/12/20**

The National Bureau of Economic Research announced on Monday that the U.S. officially entered a recession in February. For those keeping score, that marks the official ending of the 128-month economic expansion, the longest in history … dating back to records kept since 1854.

The NBER acknowledged the current downturn has "different characteristics and dynamics", but its broad reach warrants its designation as a recession. The expectation is that the recession will be much shorter than the Great Recession of 2007-2009, but it could take some time to reach a full recovery.

> **We fell into a gigantic hole, and even if we make substantial progress climbing out over the next few months, we're still probably going to be considerably in the hole.**
>
> **Karen Dynan, Peterson Institute – WSJ 6/8/20**

Household net worth fell 5.6% in the first quarter … the largest single-quarter drop in recorded data going back to the early 1950s. Most of the decline resulted from the $7.8 trillion drop in stock market values.

The Labor Department reported on Thursday that 1.5 million applications for unemployment benefits were filed last week … down considerably from the 7 million filed during the week ended March 28. Continuing claims, Americans currently drawing benefits, declined slightly to 20.9 million in the week ended May 30. While it's great to see these numbers declining, they are still historically very high. In comparison, the pre-pandemic record was *only* 6.6 million in 2009.

> **We're in this for the long haul. We're not going to recover quickly, and there will be pain ahead.**
>
> **Altaf Kassam, State Street Global Advisors – WSJ 6/11/20**

For the first eight months of the current fiscal year, the U.S. government recorded a budget deficit of $1.9 trillion. That compares with a deficit of $739 billion during the same period last year, according to the Congressional Budget Office. The CBO estimates the deficit could reach $3.7 trillion when the fiscal year ends in September.

> **These are unknown deficit heights … Good news, fingers crossed, is that financial markets appear to be forecasting a recovery … We hope they're right, because it's going to take years of economic growth to dig out of this shutdown budget hole.**
>
> **The Editorial Board – WSJ 6/8/20**

The June Wall Street Journal survey found that over two-thirds of economists expect the U.S. economic recovery to start in the third quarter. Just over 22% felt that it had already begun in this quarter.

Most economists expect the recovery to be shaped like a "swoosh" … so named because it would resemble the Nike logo. In other words, economists expect the large drop to be followed by a gradual recovery.

The Federal Reserve ended its two-day meeting on Wednesday. They left rates unchanged and committed to providing more support to the economy.

> **We're not thinking about raising rates. We're not even thinking about thinking about raising rates.**
>
> **Jerome Powell, Fed Chairman – Barron's 6/10/20**

According to the National Institute of Allergy and Infectious Diseases, the federal government plans to fund and conduct studies of three experimental coronavirus vaccines this summer. These phase 3 trials, which will involve tens of thousands of individuals, are meant to determine a vaccine's safety and effectiveness.

> **There's a lot of optimism in our community that a vaccine should be possible, but we are very focused on the fact that that has to be proven in clinical trials.**
>
> **Dr. John Mascola, Director NIAID – WSJ 6/10/20**

Volatile markets are thought to be great environments for active money managers. That simply wasn't the case. In fact, 64% of all actively managed U.S. stock funds underperformed the broad U.S. stock market from January through April. Over the past 15 years, 88% of actively managed U.S. large-cap stock funds underperformed their benchmark.

2020 has been a ripe environment for active management to shine and show the value that stock selection can provide. Active managers got a pitch down the middle, and they're swinging and missing more often than they would like.

Todd Rosenbluth, CFRA – WSJ 6/10/20

The markets seemed to be pricing in the best-case economic scenario. We were overdue for a pullback. Going forward, expect investors to be fixated on coronavirus data and related concerns surrounding the potential for a second wave.

The current P/E (price/earnings ratio) on the U.S. market is in the top 10% of its history. The U.S. economy in contrast is in its worst 10%, perhaps even the worst 1%. In addition, everything is uncertain, perhaps to a unique degree … this is apparently one of the most impressive mismatches in history.

That being said, this is a new type of crisis and much is different. There are no certainties but there are probably still some better and safer themes. Caution and patience are likely to be two of them.

Jeremy Grantham, GMO – Quarterly Letter June 2020

The expectation for a V-shaped recovery may prove to be too optimistic. A "swoosh" probably is more realistic. As investors, we should be prepared for a two-step forward, one-step back recovery.

Either way, we are headed in the right direction … just expect a slower and somewhat uneven recovery period.

Daniel G. Corrigan, CPA/PFS, CFP®