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Market Update: June 21, 2020

Global stocks ended the week 2% higher as investors struggled to reconcile the benefits of economic recovery against the rising rate of coronavirus infections. Oil prices closed just shy of \$40 per barrel, for their highest close since March.

For now, it's clear the economy is improving much faster than economists have predicted.

Lisa Beilfuss – Barron's 6/20/20

It was yet another wild week on Wall Street.

On Monday, the Dow Industrials saw a swing of 1,000 points before settling up 158 points. Stocks opened down over concerns of rising coronavirus cases in the U.S. and China, but markets soon rallied on news that the Fed would expand its bond-buying program to include individual corporate bonds.

This is yet another sign the Fed is going to do everything under their power to help liquidity. Worries over a second wave? No worries, the Fed is here.

Ryan Detrick, LPL Financial – WSJ 6/15/20

On Tuesday, U.S. stocks advanced 2% on data showing consumer spending rebounded last month. The Commerce Department reported retail sales increased a seasonally adjusted 17.7% in May from a month earlier. Still, retail spending remained below pre-pandemic levels ... from a year earlier, retail sales were down 6.1% in May.

We've had a solid start to May in the U.S. But we believe stimulus spending has been a big driver, which we don't anticipate staying at these levels.

Doug McMillon, Walmart Chief Executive – WSJ 6/16/20

Retail sales data, consistent with last month's jobs report, exceeded expectations and offers another sign that the economy is in recovery. Consumer spending is two-thirds of economic output, and retail sales account for about 25% of consumer spending.

The overall message from Tuesday's reports is that the second quarter, while horrible, won't be as bad as earlier feared ... what shape the economy will take in the months ahead is still unknown. Watching what the virus does, and how people react, will be one key to figuring out what may happen. The other will be watching Washington.

Justin Lahart – WSJ 6/16/20

Until the virus is contained, a full recovery is unlikely.

Jerome Powell, Fed Chairman – WSJ 6/16/20

On Thursday, the Labor Department reported 1.5 million workers applied for unemployment benefits during the week ended June 13. Applications were 58,000 less than the prior week, and the fewest since mid-March.

You're going to see elevated levels of layoffs because some businesses will permanently close. But hiring and rehiring will outweigh that this summer, especially as you see big cities, such as New York, reopen.

Roiana Reid, Berenberg Capital Markets – WSJ 6/18/20

Continuing claims, the number of Americans receiving benefits, fell by 62,000 to 20.5 million in the week ended June 6. That number has stabilized around 20 million for the past few weeks, and is down from the

peak of nearly 25 million in early May. Before the pandemic, the record for the most Americans collecting unemployment benefits was 6.6 million in 2009.

The number of workers applying for and receiving unemployment benefits has stabilized at historically high levels, signs that while the labor market is healing hundreds of thousands of workers are still losing their jobs each week.

Eric Morath – WSJ 6/18/20

On Friday, the Dow Industrials swung more than 600 points – turning a nearly 400-point gain into a more than 200-point loss – as Apple announced it was closing stores due to rising coronavirus infections. The markets sold off quickly after Apple said it was closing 11 stores across Florida, Arizona, North Carolina, and South Carolina.

According to a Wall Street Journal analysis of data from Johns Hopkins, more than a dozen U.S. states have seen an acceleration of confirmed coronavirus cases. Florida, for example, had more than 2,000 people test positive last weekend ... more than double the number of daily reported cases just two weeks ago.

We don't have a lot of other things in the toolbox other than slowing interactions down between people.

Dr. Tom Inglesby, Johns Hopkins Bloomberg School of Public Health – WSJ 6/15/20

A new cluster of coronavirus cases was discovered in a Beijing market which supplies 80% of the city's fruits and vegetables. Beijing had gone eight weeks without a new locally transmitted case. On Monday, authorities locked down ten residential neighborhoods near the market, prohibiting roughly 90,000 citizens from leaving their apartments.

Trade between the U.S. and China rose to \$39.7 billion in April, up over 40% from the previous month, but well below the record \$61 billion set in October 2018. The uptick was enough to surpass trade with Mexico and Canada, as China recaptured the distinction of being the USA's largest trading partner. Despite the rise, China is not on track to meet purchase terms under the trade pact signed in January.

If anything, the pandemic provides the Trump administration an excuse to keep the deal going despite China's lack of progress toward meeting the unreasonable purchase targets.

Chad Brown, Peterson Institute – WSJ 6/14/20

Assets in money market funds are now at \$4.6 trillion, the highest level on record with data going back to 1992. Money market funds, one measure of cash holdings, are up about \$1 trillion this year. The previous high of \$3.85 trillion was reached during the Great Recession of 2008-2009.

The flight to cash is attributed to coronavirus fears and balances were also bolstered by the stimulus checks sent to millions of Americans. According to Deutsche Bank, overall stock positioning among investors remains at the lowest levels of the past decade.

If this rally continues ... this is something to fuel a continued rise in U.S. equities.

Stephen Suttmeier, Bank of America – WSJ 6/16/20



PIMCO's investment professionals expect the recovery to be long and arduous for the following reasons:

1. Social distancing will continue to be necessary and likely.
2. Global supply chains will remain impaired for some time.

3. The reallocation of labor and capital from losing to winning sectors is a process that takes time.
4. A debt overhang will weigh on consumer and investment spending.

Our baseline continues to be a bumpy and uneven recovery with pre-crisis level of economic activity unlikely to be reached before 2022 in most Western economies. Put differently ... the economy rode the elevator down but will have to climb the stairs back up.

Joachim Fels, The Long Climb - PIMCO Blog 6/16/20

Here is some good advice for investors as we work our way through this two-step forward, one-step back recovery.

Wise investors must be ever alert to both the dangers and the opportunities the market brings them. You don't need a multimillion-dollar model to tell you that. You just need some courage and some common sense.

When all the latest technology fails us, we can take solace in time-tested wisdom: Be prepared for big, unexpected losses. Be alert for opportunities when others lose hope. Above all, stay the course.

Don Phillips, Morningstar Managing Director – Q2 Dispatches

For the many Americans struggling from the effects of the pandemic, financial planning has become an immediate priority. The summer months are usually a good time to update longer-term financial goals and review related planning strategies.

We are always available to help. Take care, and stay safe.

Daniel G. Corrigan, CPA/PFS, CFP®