CORRIGAN FINANCIAL, INC.

Market Update: May 2021

Global stock markets advanced for the fourth straight month, generating returns of just over 1% during May. Foreign stocks led the way with gains of approximately 3% for the month, while domestic stocks closed with more modest gains. Year-to-date, global markets have gained nearly 11% … led by the stocks of smaller and more economically sensitive companies.

> **The moves mark a reversal of last year's trend, when the pandemic slowed economic activity and stock pickers flooded into shares of technology companies that many believed could benefit from the crisis.**
>
> **Michael Wursthorn – WSJ 5/31/21**

With Covid-19 cases declining, vaccinations rising (over 60% of adults have received at least one shot), and business restrictions being lifted, U.S. economic growth has been strong. On top of that, consumers are flush with cash. Believe it or not, 33% of personal income in 2020 consisted of stimulus and other federal subsidies. It's no wonder the personal savings rate exploded to 27% last year.

> **The U.S. consumer has an itch to spend, the means to do so and fewer health reasons not to indulge.**
>
> **Gregory Daco, Oxford Economics – WSJ 5/28/21**

Due to shortages of labor and certain basic materials, however, supply is having a hard time keeping up with demand. As a result, prices are on the rise, and inflation concerns are dominating daily stock market movements. According to the Commerce Department, the Federal Reserve's preferred measure of inflation rose 3.1% in April from a year earlier.

If price increases are simply being caused by manufacturers catching up from pandemic lows, inflation should only be temporary … or, as the Fed would say, *transitory*. If not, maybe we have a longer-term problem. That, in a nutshell, is the current economic debate: Are current price increases *transitory or non-transitory?*

> **Inflation is here already, and in the long run there is a lot of upward pressure on prices. But between now and then lies a big question for investors and the economy: Is the Federal Reserve right to think that the price rises we're seeing now are temporary (transitory) and will abate by next year?**
>
> **James Mackintosh – WSJ 5/31/21**

Massive government spending raises the risk of inflation, as well as the devaluation of the U.S. dollar. As deficit spending escalates, there are also concerns that there won't be enough buyers to absorb the increasing supply of government bonds. That is why some economists at the 2021 Strategic Investment Conference (SIC) are preparing for longer-term inflationary pressures.

> **We are about to see *non-transitory* inflation. Inflation will bring higher interest rates. The biggest driver of inflation is the $4 trillion deficit, which does not include the spending bills that were just passed or infrastructure bills that are pending.**
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> **Jim Bianco, Bianco Research L.L.C. – SIC 5/8/21**

Businesses are also flush with cash. Moody's Investors Service reported cash holdings of U.S. non-financial companies hit a record during the pandemic. Also, over 80% of domestic companies beat earnings expectations in the first quarter.

> **Everyone knows about the coming consumer spending binge. Yet, investors have failed to appreciate the approaching business spending boom. Businesses aided by huge cash reserves, cheap**

> **financing costs and sky-high stock prices are likely to unleash a massive spending spree.**

Michael W. Arone, SSgA – Uncommon Sense 5/6/21

First quarter GDP rose at an annual rate of 6.4% - unrevised from the Commerce Department's initial estimate. Initial jobless claims continue to fall and are at the lowest levels since the start of the pandemic. Still, nearly 16 million Americans continue to claim benefits through all unemployment programs.

> **I think there's still a lot of pain out there, but the good news is that it really looks like the economy is kicking into overdrive, and I do see positive signs for the job market.**

Beth Ann Bovino, S&P Global Ratings – WSJ 5/27/21

On June 4, the Labor Department reported that U.S. employers added 559,000 jobs in May, and the unemployment rate declined to 5.8% … down from 6.1% in April. The economy is still down about 7.6 million jobs since the start of the pandemic, and it is estimated that 9.3 million people were unemployed and potentially available to work.

> **We think it will take several months for frictions in the labor market to work themselves out. That just means we shouldn't be expecting one or two million jobs every month. Instead, it will be a more gradual process.**

Michael Gapen, Barclays' Chief U.S. Economist – WSJ 6/4/21

Low interest rates and shortages of homes for sale have caused housing prices to explode. The median price of a new home sold in April was $372,400 … up 20.1% from a year earlier and the largest annual increase since 1988. Existing home prices rose 19.1% in April to $341,600. As of the end March, existing homes on the market were down over 28% from a year earlier.

While home builders have increased their construction pace, it could take years to shrink the nationwide deficit of houses, economists say. Builders are facing rising material costs and shortages of ready-to-build land and skilled labor, limiting how quickly they can ramp up production.

Nicole Friedman – WSJ 5/25/21

Rising vaccinations and lockdowns have helped Europe to reduce infections and reopen businesses. The European Union now expects to return its economy to prepandemic levels by the end of this year … six months earlier than previously estimated.

Europe's initial slow vaccine deployment will leave scars on its society, economy and politics.

Benoit/Bisserbe/Legorano – WSJ 5/20/21

The vaccine gap between developed and developing economies is at its most severe since immunizations began. For example, it is estimated that only 0.4% of Africa's population has been fully vaccinated. Pew Research Center warns that it will take the middle class in developing countries years to return to prepandemic levels. The World Bank estimates 150 million people will ultimately fall into "extreme poverty".

In the U.S., economists are forecasting a return to boomtime growth levels of the roaring 20s … Yet across the developing world, where people are largely unvaccinated and governments are unable to afford sustained stimulus measures, economies are falling further behind, struggling to rebound from last year's record contraction.

Joe Parkinson – WSJ 5/18/21

Trading in meme stocks and cryptocurrencies is symptomatic of the broad speculation that persists in the marketplace. Bitcoin traded around $7,000 at the beginning of 2020 and peaked at just below $65,000 in mid-April. It currently trades at just over $35,000. Cryptocurrencies took a big hit when Tesla stopped accepting bitcoin as payment for their electric cars, and three Chinese banks stopped accepting payments in virtual currencies.

Elon Musk, Tesla's Chief Executive, communicated that the change was due to the excess emissions generated by computers verifying transactions and *mining* tokens. (Bitcoin's carbon footprint is estimated to be comparable to all of Portugal's emissions.) Some believe the change was really made because of the inherent accounting problems associated with a noncash and extremely volatile asset.

> **The chances that bitcoin will ever become real money or make a productive contribution to society seem close to nil … Ultimately, cryptocurrencies have no convincing use case. As a means of payment, they are a slower, more pollutive alternative to bank transfers.**

Jon Sindreu – WSJ 5/24/21

Investors should be anticipating volatility. Remember, market declines of 10% or even 20% happen quite often. Trying to anticipate such moves is a fool's errand. Successful investors should ignore the noise and simply rebalance their portfolios. If you do that consistently, market volatility will eventually become your friend.

> **Ignore all forecasters and their outlook for the market. The job of the advisor is to get the client to act like the lowly postage stamp, which does one thing and one thing only exceedingly well: It sticks to the letter until it reaches its destination.**

Larry Swedroe, Buckingham Wealth – ThinkAdvisor 5/18/21

Stock valuations are currently at historic highs … second only to the 2000 technology bubble. Valuations are being held up by extremely low interest rates, as the 10-year U.S. Treasury bond yield is well below inflation. In other words, *real yields* are negative … for only the second time in 40 years.

> **Is the market overvalued? Valuations are stretched, but not insanely so.**
>
> **Ed Yardeni, Yardeni Research – SIC 5/10/21**

Looking ahead, bonds can only be expected to generate relatively low returns. And with stock valuations *stretched,* stocks are now offering higher risk levels relative to their expected returns.

> **Financial advisors should be having real conversations with their clients about what matters more: risk or return.**
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> **Ben Inker, GMO – ThinkAdvisor 5/14/21**

We realize that discussions about risk are always centered around tax-effected cash flows, and financial assets. I suppose the key point here is that risk should be a personal assessment … and not necessarily a function of the current economic backdrop or investment climate. Timeframe is the most important factor. Your planning framework determines your time horizon … that's why it is so important.

Thanks so much for your support over these past 15 months. I hope everyone is enjoying *the reopening* with family and friends!

Daniel G. Corrigan, CPA/PFS, CFP®