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Market Update: May 31, 2020

Domestic stocks returned 5% during the month of May and registered their best two-month performance since April 2009. Global stock markets have rallied more than 30% since the market lows reached in March ... reducing year-to-date losses to single-digits.

Count economic reopening progress, declining coronavirus cases and fatalities, and vaccine optimism as among the factors keeping the current rally going. A base of supportive fiscal and monetary policies and just simple momentum has Wall Street biased upward, despite the continued pain and suffering on Main Street.

Nicholas Jasinski – Barron's 5/26/20

The Labor Department reported an additional 2.1 million U.S. workers filed for jobless claims last week, down for the eighth straight week, but still at a level 10 times higher than before the pandemic. Continuing claims, those workers currently receiving benefits, fell to 21.1 million in the week ended May 16 ... the first decline since February.

I think we've hit bottom, as far as layoffs. Auto factories and suppliers have called back workers and you're seeing states that shut down construction allowing those projects to restart.

Marianne Wanamaker, University of Tennessee – WSJ 5/28/20

The Commerce Department reported on Friday that consumer spending fell by a record 13.6% in April, despite personal income increasing by 10.5 percent. While wages and salaries declined by 8% for the month, federal rescue programs, household stimulus payments, and unemployment insurance payments made up for the shortfall. The result ... Americans saw a sharp rise in their personal savings.

The economics of fear and sudden stops were apparent in April as fearful and locked-down households cut back on spending.

Gregory Daco, Oxford Economics – Washington Post 5/29/20

Anecdotal evidence suggests that the economic decline isn't getting any worse, and conditions may actually be improving in certain areas. The number of travelers passing through TSA checkpoints fell to just under 88,000 on April 14 – 96% below the same day last year. But on May 24, the figure more than tripled to just over 267,000 ... although still down 87% from the same day a year ago. Freight shipments, property showings, mortgage applications, and spending on hotels and restaurants, all appear to be showing modest improvements.

If this is the only wave (of coronavirus), it looks like we've bottomed out and the normalization process has begun.

Beth Ann Bovino, S&P Global Ratings – WSJ 5/25/20

With states opening, the focus is shifting to their financial circumstances and the ability to maintain balanced budgets. Preliminary estimates have statewide revenues declining between 15 – 25% in fiscal years 2020 and 2021. The revenue shortfall over the next two years could reach over \$500 billion according to Moody's Analytics.

We have evidence of the global financial crisis and the years afterward where state and local government layoffs and lack of hiring did weigh on economic growth.

Jerome Powell, Federal Reserve Chairman – WSJ 5/24/20

State and local governments employ one in every eight American workers, and their spending amounts to about 11% of U.S. GDP. With falling revenues, along with the escalating costs of health care and unemployment insurance, they have been hit hard by the pandemic.

Unlike the federal government, they cannot run deficits, so the shortfalls must be corrected by spending cuts or tax increases.

On Monday, it was reported that Novavax, Inc. started its first human study of its experimental coronavirus vaccine. The study will enroll about 130 healthy people in two sites in Australia. The company has already started to scale up manufacturing and could produce up to 100 million doses this year, and potentially more than a billion by 2021.

We went at risk and started manufacturing at a larger scale. Time is the most important thing here.

Stanley Erck, Novavax CEO – WSJ 5/26/20

There are more than 120 experimental coronavirus vaccines in development, with at least 10 vaccines for Covid-19 being tested on people globally.

The Organization for Economic Cooperation and Development reported the combined GDP of its 37 members was 1.8% lower in the first quarter than in the fourth quarter of 2019. That is the largest drop since the 2.3% decline during the first quarter of 2009 during the global financial crisis.

Among the seven largest economies, France had the worst decline, followed by Italy. Japan had the smallest drop, followed by the U.S. Economists expect the second quarter declines to be deeper ... but May's activity suggests the damage from the pandemic is easing. The United Nations estimates that the output lost over this year and next will amount to \$8.5 trillion, which is equivalent to gains made over the previous four years.

The pandemic has paralyzed large parts of the global economy, sharply restricting economic activities, increasing uncertainties and unleashing a recession unseen since the Great Depression.

United Nations – WSJ 5/26/20

The European Commission, the European Union's executive arm, just proposed a \$824 billion coronavirus recovery plan. This follows a similar plan offered last week by France and Germany. The plan, which must be approved by all 27 EU countries, would allow transfers of wealth among members funded by commonly issued EU debt.

The plan, if approved, would respond to demands from the European Central Bank for governments to match its ultra-easy monetary policy with coordinated, large-scale fiscal efforts ... EU officials are bracing for weeks of arguments.

Laurence Norman – WSJ 5/27/20

There hasn't been a European equivalent to U.S. Treasuries, so the issuance of a common European bond will be a defining moment for the EU. The proceeds will provide grants and loans to the nations that are struggling the most because of the pandemic.

If they can pull this off, it will be a massive step in the right direction. The one thing that's lacking in policy capabilities is to issue debt jointly. They haven't done that in this order of magnitude.

Scott Thiel, BlackRock – WSJ 5/27/20

Legislation passed in the Senate, and expected to be approved by the House, would remove Chinese companies from U.S. stock exchanges if their audits are not inspected by U.S. regulators.

For more than a decade, Chinese companies raised billions by listing their shares on American stock exchanges while avoiding the accounting-quality checks that other public firms endure.

Michaels/Otani – WSJ 5/26/20

Chinese companies are required to disclose to the Securities and Exchange Commission whether they are owned by a state authority. According to securities lawyers, China is less likely to allow audit workpapers for state-owned firms to be shared with outside regulators.

What has helped with this is all things coronavirus. China's response has brought a lot of issues to the forefront, one of which is, should they have access to our markets with different rules than everybody else?

Rep. Mike Conaway, Texas – WSJ 5/26/20

China voted to impose national-security laws on Hong Kong, dealing a blow to the territory's system of self-governance ... known as the "one country, two systems" framework. In response, the State Department certified to Congress on Wednesday that Hong Kong is no longer autonomous.

This decision gives me no pleasure. But sound policy-making requires a recognition of reality. It is now clear that China is modeling Hong Kong after itself.

Mike Pompeo, Secretary of State – WSJ 5/27/20

In response to China's actions, President Trump announced on Friday the U.S. will be suspending entry to Chinese nationals deemed security risks to American scientific research. The U.S. will also start rolling back special preferences for Hong Kong. Much of China's international banking business, conducted in dollars, is done from Hong Kong. Also, more than 70% of international trade in the yuan is done in the city.

The 2020s are the decisive decade for the U.S.-China competition and the Covid-19 pandemic may be America's "Sputnik moment" on China, a wake-up call for the United States to respond to the activities of the Communist Party of China which have been eroding American industrial, technological, and military

advantages for many years. In short, U.S.-China strategic competition is just getting started, it is here to stay, and it will be the defining contest of our lifetimes.

Dr. Jonathan Ward, Atlas Group – Advisor Perspectives 5/22/20



We have certainly come a long way in the past two months, but this is no time to get complacent. We still have a long way to go. Plenty of issues remain ... and it will probably take some time for our economy to make a full recovery.

What could go wrong? A second wave of infections, escalating U.S. – China tensions, or a stalling economic recovery could cause the markets to retest the lows reached on March 23.

While, the pandemic has provided enormous obstacles and much sadness, Michael Arone, Chief Investment Strategist at State Street Global Advisors, reminds us there is much to celebrate:

- The resilience of the human spirit.
- The courage and selflessness of frontline healthcare workers everywhere.
- The brilliance, ingenuity and focus that will likely aid in the discovery of a Covid-19 remedy soon.
- And, the bravery of so many workers that put their health and health of their loved ones on the line daily so we can live, work and play.

As the lockdowns ease, take care and stay safe.

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