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Market Update: October 2020

Although economic data and corporate earnings continued to show solid improvement, domestic stock markets were down in October. After peaking in early September, all three major indexes – The Dow, S&P 500, and Nasdaq Composite – registered declines for the second straight month. Market activity reflected fears associated with growing coronavirus infections and the related concerns that any new lockdowns could derail the current economic rebound.

Pick your worst nightmare ... Fear of catching Covid-19? ... Fear of an unruly presidential election? ... Afraid that the economy is heading for another slide?

Of course, none of these were exactly a surprise, but that doesn't really matter. The market simply decided, after weeks of sideways trading, that these things were suddenly to be feared in a way they weren't a week before. Which is, of course, its prerogative.

Ben Levisohn – Barron's 10/30/20

Global stocks declined 2.4% in October and are now essentially flat for the year. U.S. stocks have returned just over 3% for the year, outperforming the 7.5% decline by foreign equities. The month of October also saw U.S. *value* stocks beating their *growth* equivalents for the second month in a row.

Small-cap stocks outperformed larger equities, underscoring a bet that if Democrats win the White House and gain control of the Senate, it will lead to bigger spending programs. Apparently, investors believe greater fiscal spending will more than offset the effects of corporate tax hikes and increased regulation.

There is this notion that the fiscal stimulus will overwhelm any tax implications that a blue wave might bring.

Dan Cole, Columbia Funds – WSJ 10/29/20

The yield on the U.S. Treasury note ended the month at 0.858%, notching its biggest monthly gain in two years. (Remember, bond prices fall when yields rise.) The yield

was also up during the last week of the month. It was only the 17th time since 1962 that the yield increased during a week that the S&P 500 also declined.

In the past, yields on U.S. Treasuries would often fall when stocks took a tumble. Since yields move inversely to bond prices, this alleviated losses for investors. Recently, though, government bonds have done little to cushion the blow.

Joe Wallace – WSJ 10/30/20

New coronavirus cases in the U.S. are on the rise, with the daily infection rate now surpassing 80,000 cases. While a second wave was expected, it is coming earlier than anticipated. The numbers are even worse in Europe, as its two biggest economies – France and Germany – have just announced lockdowns to combat the surge. France, now considered the epicenter of Europe's outbreak, is recording infections greater than 50,000 cases each day ... a very troubling number considering that its population is one-fifth the size of the U.S.

A month ago, the narrative in the market was very much that lockdowns would be limited and targeted, and so would have a smaller impact on the economy. But now, what we are seeing is broader concerns that lockdowns might be wider and have a much wider impact.

Hugh Gimber, JP Morgan Asset Management – WSJ 10/28/20

Italy is also struggling with rising infections, and Spain has announced a state of emergency. Italy was considered the epicenter during the first wave, but managed to get infections down to less than 200 a day this summer. Recent daily infections have now surpassed 20,000. So far, statistics on deaths from the virus are only at a fraction of the death toll during March and April.

The virus is spreading faster than even the most pessimistic forecasts.

French President Emmanuel Macron – WSJ 10/28/20

The Commerce Department announced that the U.S. economy grew at an annualized rate of 33.1% during the third quarter. Annualized rates are not really of any help during times of extreme volatility ... so for the rest of us, just consider that economic growth was about 7.4% for the quarter. For the first nine months of the calendar year, the U.S. economy has declined about 3.5% after adjusting for inflation and seasonal fluctuations.

It's hard for investors to get excited about an optimistic outlook when they're worrying about a resurgence in Covid cases hitting the unfolding economic recovery.

Nicholas Jasinski – Barron's 10/27/20

Initial jobless claims continue to decline, although at a more moderate pace. For the week ended October 24, jobless claims declined to 751,000, while weekly applications were in excess of 800,000 during the month of September. Overall, the U.S. has recovered about half of the 22 million jobs lost in the early days of the pandemic, although service sector businesses are continuing to struggle.

We've had a lot of progress in a short period of time. Still, the idea there are going to be winners and losers definitely holds.

Stephen Stanley, Amherst Pierpont Securities – WSJ 10/29/20

New orders for durable goods rose 1.9% in September ... the fifth straight month of gains. Business investment, which had already recovered all of its pandemic-related losses in August, registered an increase of 1% for the month.

The economic recovery isn't entirely dependent on consumers, with business-equipment investment recording a swift bounce back to prepandemic levels.

Paul Ashworth, Capital Economics – WSJ 10/27/20

The strong initial economic rebound in the U.S. occurred in May, June, and July. More recent data suggest that the current pace is much slower, with employment and output well below prepandemic levels.

While the September data are positive, the risk to the manufacturing sector now comes from surging virus cases that could result in supply-chain disruptions, weigh on demand, and slow the pace of the rebound going forward.

Rubeela Farooqi, High Frequency Economics – WSJ 10/27/20

Economists from Vanguard expect the U.S. GDP contraction to be around 4% for all of 2020, and unemployment to end the year between 7 – 9%. Looking ahead, they expect 4% GDP growth during 2021. Vanguard expects China to be fully recovered

from the pandemic by year end, but the eurozone should see a contraction of over 8% for calendar 2020.

Absent a widely accessible and administered vaccine or treatments that could moderate those effects, we see at least a 24-month period for the U.S to reach a pre-Covid trajectory of activity.

The Vanguard Group – Market Perspectives November 2020

PIMCO's annual *Secular Forum* concluded that the pandemic has amplified long-term disruptors. They focused on four major macroeconomic disruptors that are likely to become even more pronounced over the near-term: China's rise, populism, climate-related risks, and technology. They also emphasized two key swing factors that could produce upside or downside surprises ... the state of the pandemic, and the degree to which fiscal policy stays active or retreats.

Uncertainties over the course of the pandemic and the shape of the recovery raise the prospect of higher economic and market volatility ... As well as this secular period being, with high probability, a period of lower investment returns, it is also likely to be a period of higher volatility of those returns. We as investors need to be prepared.

PIMCO Secular Outlook – October 2020

Federal and local eviction moratoriums have protected many renters who have been unable to pay some or all of their rent. The national ban on evictions and some state and local protections are set to expire at or around January of 2021. Without any additional stimulus payments, it is estimated that almost 13 million Americans would owe an average of \$5,400 in missed payments.

Those households will have to make some pretty massive financial choices and pull back on other spending to pay their rent. That's a hit to the economy.

Mark Zandi, Moody's Chief Economist – WSJ 10/27/20

Both new and existing single-family home sales are now well above their pre-crisis levels. In fact, sales would likely be much higher if available inventory levels weren't so low. The average 30-year fixed rate mortgage is now at or around its lowest level on record.

Housing usually gets trounced during recessions, but the Covid downturn is different. Ultimately, how the housing market will perform in the post-Covid world will depend on how robust the economy proves to be, and the degree to which the scars the pandemic has caused fade. The jury is still out.

Justin Lahart – WSJ 10/22/20

According to Moody's Analytics, U.S. state budgets will have a shortfall of about \$434 billion from 2020 through 2022. Their estimate does not include any new stimulus from Washington or any further coronavirus restrictions on business and travel. The shortfall does consider extra Medicaid costs due to continuing high unemployment.

U.S. states are facing their biggest cash crisis since the Great Depression.

Gillers/Banerji – WSJ 10/28/20

How much is \$434 billion? According to the National Association of State Budget Officers, that amount is greater than the 2019 K-12 education budget for every state combined, or more than double the amount spent on state roads and transportation infrastructure.

We really have uncharted waters in front of us. The waves appear to be getting more-choppy.

Chris Kolb, Michigan's Budget Director – WSJ 10/28/20



History shows that markets tend to go up or down regardless of which party controls Washington. Over the past 91 years, one party controlled both chambers of Congress and the presidency in 45 of those years ... and the S&P 500 average rose 7.45% during those years, according to Dow Jones Market Data. The Index was up 30 times and down 15 times during those years. In the other 46 years when government was split, the index advanced 7.26% on average ... rising 29 times, falling 16 times, and remaining unchanged once.

Hastily changing course, making portfolio changes in response to short-term events, doesn't work, even in unusual circumstances. Those worried about potential election-related volatility need to remember that volatility

works in two directions, that the best and worst trading days frequently happen in proximity to each other, and that correctly timing a market exit can be counterproductive if you don't also correctly time a return to the market.

Roger Aliaga-Diaz – The Vanguard Group 10/20/20

Larry Swedroe, Chief Research Officer for Buckingham Wealth Partners, suggests that an investment strategy should be based on these core principles:

- Markets are highly, if not perfectly, efficient.
- All risky assets should have similar risk-adjusted returns.
- Investors should, therefore, diversify across many unique sources of risk.

Uncertainty exists when we cannot calculate the odds. The reason we diversify across many independent sources of risk is that we live in a world of uncertainty.

I'm a big believer in diversification, because I am totally convinced that forecasts will be wrong. Diversification is the guiding principle. That's the only way to go through hard times. It's going to cost you in the short run, because not everything will be going through the roof.

Paul Samuelson, Nobel Economist – Advisor Perspectives 10/26/20

In a month filled with negative news, staying disciplined can be a challenge for investors. Always remember, volatility brings opportunity.

Progress toward a vaccine and continued stimulus means that investors should use this period of volatility to plan their market entry. So, we believe investors should seek to put further Covid-19-related restrictions in perspective and see market setbacks as an opportunity to build exposure in the winners from the next leg up.

Mark Haefele, UBS Global Wealth Management – Barron's 10/28/20

The market noise is as loud as I can remember, and I've been doing this for over thirty years! Don't be confused by the daily commotion, and stay focused on your longer-term objectives.

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