CORRIGAN FINANCIAL, INC.

Market Update: May 2019

With investor concerns focused on mounting trade tensions and their adverse effect on economic growth, global stock markets experienced declines of 6% during the month of May. Equity markets ended the month riding their longest losing streak in nearly eight years. Still, returns for global stocks remain in positive territory year-to-date, with solid returns in excess of 9 percent.

The White House has already imposed 25% tariffs on roughly $250 billion of Chinese goods. On May 30, President Trump threatened Mexico with escalating tariffs unless the country takes action to deter the flow of migrants at the southern border.

> **This will impact consumer spending. This will impact corporate earnings. This is utilizing a trade policy tool to enforce policy outside of trade, and that sets a concerning precedent and leaves investors wondering how else tariffs could possibly be used. Markets were already freaking out over existing tariffs. We've just thrown gas on the fire.**
>
> **Kristina Hooper, Invesco – WSJ 5/31/19**

Supported by low unemployment, rising wages, productivity growth, and low inflation, the U.S. economy expanded at a robust 3.1% in the first quarter. Looking forward, expectations are more restrained due to weaker global growth and the fading effects of fiscal stimulus.

Declining interest rates may be signaling anxieties over the prospects for continued global growth. The 10-year U.S. Treasury yield declined to 2.139%, a full percentage point lower since October. The yield hasn't been this low since September of 2017.

> **Investors watch the 10-year Treasury yield as a barometer for the health of the economy because it helps set borrowing costs for everything from mortgages to corporate loans. It tends to fall when investors are worried about economic growth, so its retreat from multiyear highs hit in November has rattled financial markets and sparked fears of a coming recession.**
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> **Daniel Kruger – WSJ 6/7/19**

Historically, economic expansions in the U.S. have lasted an average of 58 months. It has been 10 years since the great recession, and if the economy continues to grow through July, it will mark the longest U.S. expansion on record.

The Eurozone is also being hurt by global trade concerns, as well as a slowdown in the Chinese economy. German government bonds settled at their lowest level on record. The 10-year bund has a negative yield of 0.212% … exceeding the all-time low reached back in June of 2016.

A slowing Eurozone could ultimately impact the U.S. According to Morgan Stanley, North American companies derive 12% of their revenues in Europe, and the technology sector alone generates 20% of its revenues from the region.

> **There is no specific weakness in Europe, the weakness is global. All this is down to the fact that by imposing tariffs the U.S. strongly disrupted the global trade landscape and every open economy is suffering from that.**
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> **Samy Chaar, Lombard Odier – WSJ 5/31/19**

Negative interest rates were supposed to be a short-term *injection* to stimulate the European economy … instead, they have become a long-term fixture. The theory behind the practice is that negative rates inhibit saving and stimulate spending. In fact, no major bank that has introduced negative rates has turned policy rates positive again.

> **Overall, we are on a painkiller, and it's very hard to get off it.**
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> **Tamaz Georgadze, Raisin GmbH in Berlin – WSJ 5/20/19**

Approximately $11 trillion of bonds around the world … concentrated in Europe and Japan and representing 20% of all debt world-wide … carry negative yields. It has been five years since the European Central Bank initiated its negative interest-rate policy. The fact that the policy has proved to be relatively ineffective speaks to the weakness and overall vulnerability of the European economy.

> **You can easily imagine a five-pawed St. Bernard or a suitable candidate for public office as you can the situation of a lender paying a borrower for the privilege of extending a loan. The institution of negative yields serves to remind us that radical monetary policy only begets more radical monetary policy.**
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> **James Grant, Grant's Interest Rate Observer – Barron's 5/24/19**

The Congressional Budget Office just came out with updated projections concerning the U.S. national debt … and the numbers are not pretty. Annual deficits are projected to average around 4.3% of GDP over the next 10 years, well over the 2.9% average over the previous 50 years.

Some economists (Modern Monetary Theory) and recent research suggest high government debt may actually be less of a problem. The recent CBO data suggests otherwise. Their report indicates that rising deficits would overwhelm any benefit gained from debt-fueled fiscal stimulus.

> **If the average interest rate did not change, primary deficits would have to average less than 1.0 percent of GDP – significantly less than the 1.7% that we project they would average under current law – to keep debt from rising as a share of GDP.**
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> **Keith Hall, CBO Director – WSJ 5/2/19**

To put it bluntly, our government spends at a level that is simply not sustainable. So, while we remain fixated on monthly employment reports and transcripts from Fed meetings, the elephant in the room continues to go unnoticed.

For now, the current expansion is slowing, but recession does not appear to be imminent. The Labor Department delivered a rather uninspiring jobs report (June 7), but the unemployment rate remains at 50-year lows. The markets, bolstered by the prospects for a Fed rate cut this summer, are actually rallying as I write this update.

Timing the market has always been a fool's errand. Investment decisions should never be made based on the tedious predictions of market pundits. Your explicit financial circumstances should steer investment *policy* decisions. Rebalancing to policy will provide the discipline to profit from market volatility.

Daniel G. Corrigan, CPA/PFS, CFP®