CORRIGAN FINANCIAL, INC.

Market Update: February 2023

Global stocks declined nearly 3% in February, as worries over inflation were exacerbated by data suggesting the economy is not cooling. Global bond prices were also off by about 3% for the month. Still, for the first two months of the year, global stocks are up more than 4%, while global bond prices are basically flat.

Inflation readings in January from a year earlier were slightly higher than those for the 12 months through December. Meanwhile, consumer spending in January was up 1.8% from the previous month on a seasonally adjusted basis … the largest increase in two years.

> **The ongoing imbalance between supply and demand for labor, combined with the large share of labor costs in the service sector, suggests that high inflation may come down only slowly.**
>
> **Philip Jefferson, Fed Governor – WSJ 2/24/23**

While personal income and consumer spending have been strong, this boost is generally attributed to higher compensation rates and the 8.7% social security cost-of-living adjustment. A good amount of this spending has also been helped by an increase in credit card debt.

> **The consumer's increasing reliance on borrowing should make further increases in consumer spending unsustainable … suggesting that a slowdown may be lurking around the corner.**
>
> **J.P. Morgan Asset Management – Market Insights 2/27/23**

With more than 90% of companies in the S&P 500 reporting fourth quarter earnings, 68% have been able to exceed earnings expectations. That may sound good, but it is actually a below average outcome.

According to FactSet, companies have been beating expectations 77% of the time over the past five years.

> **After a stellar opening month to the year, February delivered a reality check to investors. Inflation hasn't gone away. The Federal Reserve isn't done raising rates. And no one knows what to make of the economy. Those factors, plus not-so-hot earnings, sent stocks falling in February.**
>
> **Alex Eule – Barron's 2/28/23**

All eyes remain on the Federal Reserve, and the continuous debate over the nature and timing of an economic downturn. Hard landing or soft landing? Some economists and investors are now suggesting we will have no landing at all. In other words, the economy will simply continue to reaccelerate and be just fine.

> **The problem with the "No Landing" theory is that inflation remains a major problem … meanwhile, the economic morphine of government checks and loose monetary policy is wearing off.**
>
> **Wesbury/Stein, First Trust – Advisor Perspectives 2/27/23**

J.P. Morgan strategists suggest it is premature to say a recession won't happen, as they caution that monetary tightening can have an economic impact that lags as much as one to two years.

> **As they were much of last year, investors are once again hanging on any indication of how the Fed will respond to a stronger-than-expected economy.**
>
> **Matt Grossman – WSJ 2/22/23**

The markets now expect the Federal Reserve to lift rates higher and hold them there longer to keep inflation under control. The so-called *terminal rate*, the level when the Fed is expected to stop raising rates, is now expected to be above 5.25% this summer … the peak was expected to be

4.9% a month ago. The Fed's target rate currently stands at 4.5% to 4.75%.

> **Blame it on Punxsutawney Phil. Since the furry varmint poked his head out of his den on Feb. 2, there has been a wholesale reassessment of the outlook for the economy and interest rates. Maybe it wasn't his shadow that the famous groundhog saw, but a slew of indicators that showed unseasonably hot economic readings with no cooling in inflation.**
>
> **Randall W. Forsyth – Barron's 2/24/23**

The global economy is proving to be quite resilient, with business activity on the rise in the U.S., eurozone, and the U.K. Supply problems are easing, although wage pressures remain. The U.S. unemployment rate is at a 53-year low, while a mild winter has held energy consumption down in Europe, offsetting concerns about rising prices following Russia's invasion of Ukraine.

> **The surveys from S&P Global add to recent signs of renewed economic strength on both sides of the Atlantic and possibly diminished risks of a global recession this year.**
>
> **Hannon/Harrison – WSJ 2/21/23**

Economic activity in China is beginning to accelerate, offsetting some of the weakness occurring in developed economies. Manufacturing is on the rise, while exports were up for the first time in nearly two years. New home sales also increased sharply in February … the first monthly increase since mid-2021 when the property sector started its downward spiral.

> **China's economy has kicked off the year of the rabbit with a bounce worthy of its sprightly zodiac avatar. That raised the possibility of stronger global growth this year, and higher oil**

prices, too – although the biggest effects are likely to show up in the second half of 2023.

Nathaniel Taplin – WSJ 3/1/23

The International Monetary Fund expects China will account for a third of global growth this year, but much of that growth is dependent on consumer spending. The country's household savings rate reached a multiyear high of 33% in 2022. Pains from the pandemic remain, and the savings buildup could simply reflect a lack of confidence due to the depressed housing market and poor employment opportunities.

It is premature to conclude that excess savings accumulated by (China's) households will support revenge spending in a persistent way.

David Wang, Credit Suisse – WSJ 2/26/23

Geopolitical risks are on the rise. President Biden went to Ukraine and declared *unending support* against Russian aggression … a position supported by other Western countries. Vladimir Putin responded by announcing Russia is suspending participation in the last remaining nuclear-arms treaty. China continues to provide significant support to Russia's economy, and it's now threatening to provide weapons.

Beijing, however, faces a difficult balancing act. The greater its support for Russia's war, the more it will tarnish its relationship with Europe. Moreover, the more frayed ties grow between Washington and Beijing, the more Europe may feel drawn to downscale economic and diplomatic engagement with China.

Fidler/Gordon – WSJ 2/21/23

Stock values have come down quite a bit from their highs, but they still aren't necessarily cheap. FactSet reports that the S&P 500 now trades at about 17.7 times expected earnings over the next 12 months … slightly above the ten-year average of 17.2 times expected earnings.

Bonds appear to be a completely different story, as last year was technically the worst bond market on record. Remember, bond prices fall when yields rise … and the jump in bond yields has effectively repriced bond market valuations.

> **Investors who rightly abandoned bonds when yields were stupidly low should add them back as ballast to their portfolio. This not only smooths returns, but offers a decent income along the way. Bonds also, importantly, provide some protection against the risk that stocks aren't merely highly valued, but still overpriced.**

James Mackintosh – WSJ 2/28/23

A year ago, economists warned a recession was *imminent*, while inflation, once considered *transitory*, is proving to be much stickier.

> **The depressing outlook dragged down consumer sentiment and convinced roughly three-quarters of Americans by the late fall that the country was already in a recession. And yet none of it was true.**

Megan Cassella – Barron's

The overall economic backdrop has been remarkably strong in the face of inflation concerns, a tight labor market, high debt levels, and mounting geopolitical risks. For investors, this is as good a time as any to remain humble and disciplined … and extremely well diversified.

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