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Market Update: April 2023

Global stocks advanced 1.4% during April and are now up about 9% for the first four months of 2023. Global equities have actually rebounded more than 19% since the market lows reached last September. While many investors remain fixated on the steep market losses incurred during calendar 2022, they may not realize that global stock markets have been rising at a compounded annual rate of just over 12% for the past 36 months.

Doom and gloom are everywhere – everywhere, that is, except the stock market.

Nicholas Jasinski – Barron’s 4/27/23

Stock market leadership this year has been extremely narrow by historical standards. With the S&P 500 up over 9% year-to-date, just six companies are responsible for 53% of the benchmark’s gains. Not surprisingly, all six of the companies are actively involved in Artificial Intelligence (AI) ... particularly the Chatbot-themed investments like ChatGPT.

AI winners are making the index look expensive. But I’m not selling – the dividends will come in handy when the chatbot columnists take over.

Jack Hough – Barron’s 4/28/23

The month of April ended with the collapse of First Republic Bank. In the early morning hours of May 1st, regulators seized the bank and sold the majority of its operations to JP Morgan Chase. First Republic’s failure is the second largest in U.S. history ... the largest being the collapse of Washington Mutual in 2008.

This part of the crisis is over. For now, let's take a deep breath.

Jamie Dimon, JPMorgan CEO – Barron's 5/1/23

Three of the four largest bank collapses have happened in just the past two months ... with the third and fourth largest failures being Silicon Valley Bank and Signature Bank. The recent failures were a classic example of balance sheet mismanagement ... aggressive strategies that were exposed when the Federal Reserve began raising interest rates.

The White House is proclaiming that banking problems are now contained, and Wall Street seems to agree. But losses on commercial and maybe residential real-estate loans are piling up on bank books, and who knows what else is lurking in the financial weeds?

The Editorial Board – WSJ 5/1/23

In the latest sign that the labor market is cooling, U.S. job openings have dropped and layoffs are on the rise. The Labor Department just reported that there were 9.6 million job openings in March, a decrease from the 10 million openings in February and down from the 12 million openings a year ago. The number of available jobs is still well above prepandemic levels, and substantially exceeds the 5.8 million people looking for work in March. The unemployment rate remains at or around 50-year lows.

So, it looks like the labor market is on a gradual glide path that, if it continues, will take job growth down to the point where employers are no longer experiencing severe hiring strains. That in turn should cool wage growth and put the economy in a more sustainable place.

Justin Lahart – WSJ 4/20/23

The Commerce Department reported U.S. gross domestic product rose at an inflation- and seasonally-adjusted 1.1% annual rate in the first quarter.

This represents a significant slowdown from the 2.6% GDP growth rate in the fourth quarter of 2022.

U.S. consumer spending continues to be supported by a solid labor market, but business spending saw a sharp decline. The Fed's preferred inflation gauge (the personal consumption expenditures price index) rose at a 4.2% annual rate in the first quarter ... up from 3.9% in the fourth quarter, and well above the Fed's 2% target.

Both CEOs and consumers are looking around the corner and not expecting good things in the six to nine months ahead.

Erik Lundh, Conference Board – WSJ 4/27/23

China's economy grew by 4.5% in the first quarter of this year compared to a year earlier. Growth was driven by consumer spending, which had been constrained for almost three years due to Covid-19 restrictions. Historically, China's economic growth has been built on an investment driven model ... not by domestic consumption.

Previous attempts to encourage consumer spending have been stifled by an underdeveloped social safety net, a deficiency reinforced during the pandemic. Lacking confidence in their longer-term financial circumstances, many Chinese citizens tend to increase savings or paydown debt instead of boosting consumption.

The big question now is whether the jump in consumer spending is merely ephemeral – what economists have dubbed “revenge spending” – or whether it heralds a more lasting shift toward consumers playing a greater role in driving overall growth.

Stella Yifan Xie – WSJ 4/18/23

The International Monetary Fund reports that the world is entering a difficult phase, as economies deal with stubborn inflation, higher interest

rates, and fallout from Russia's invasion of Ukraine. Overall, it expects the world economy to grow by 2.8% in 2023.

The IMF anticipates that China's economy will grow by 5.2% in 2023 ... or about one-third of global economic growth. It is forecasting a 1.6% growth rate for the U.S. and an overall growth rate of 0.8% in the 20 countries that use the euro.

Aside from 2020, when economic activity cratered because of the pandemic, such a result would mark the worst year for growth since the depths of the 2008-09 global financial crisis.

Douglas/Wang – WSJ 4/17/23



With the tax filing deadline (April 18) having just passed, let's review some of the latest statistics:

- Federal income taxes provided an estimated 54% of federal revenue for 2022.
- About 70% of the 180 million taxpayers earn less than \$100,000. In the aggregate they earn 30% of taxpayer income and pay 1.5% of income taxes.
- About 25% of taxpayers earn between \$100,000 and \$500,000. In the aggregate they earn about 50% of taxpayer income and owe about 50% of income taxes.
- The top earners, about 900,000 filers, earn \$1 million or more. In the aggregate they earn about 16% of taxpayer income and owe about 40% of income taxes.

Just when you think you've seen it all, Treasury Secretary Janet Yellen tells us that the government may not be able to cover its obligations as soon as June 1, if Congress does not raise the debt limit. The debt limit currently stands at \$31.4 trillion. A U.S. government default would

obviously have wide-ranging financial and economic consequences to the global economy.

A summer of discontent may lie ahead for the financial markets, in no small part because of yet another fight over raising the federal government's debt ceiling ... Not that there's a realistic chance President Joe Biden and House Speaker Kevin McCarthy will do a Thelma and Louise-style drive into the abyss of default.

Randall W Forsyth – Barron's 4/28/23

The Federal Reserve just approved its 10th consecutive rate hike (May 3), bringing the benchmark federal-funds rate to a range between 5% and 5.25% ... a 16-year high. The Fed has raised rates by a cumulative five full percentage points from near zero back in March 2022. The May 3 hike may very well be its last for a while.

People talk about pausing, but not so much at this meeting. We feel like we're getting closer or maybe even there.

Jerome Powell, Fed Chair – WSJ 5/3/23

I have spent the last week or so in seminars and conferences ... including presentations from some of the world's top economists. Overall, the consensus suggests a soft landing is unlikely, and a recession would seem to be unavoidable.

Wall Street believes that not only have rate hikes ended, but rate cuts are coming by sometime later this year. Still, the timing and extent of any economic downshift remains in question. As usual, there continues to be more questions than answers.

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