CORRIGAN FINANCIAL, INC.

Market Update: September 2022

Global stocks declined 9.57% in September, finishing down 6.82% for the third quarter, and off more than 25% year-to-date. The three major U.S. indexes, the S&P 500, Dow Industrials, and Nasdaq Composite, all completed their worst first nine months of a calendar year since 2002.

> **This year, investors have endured a near-daily onslaught of market-moving news sketching a picture of slowing economic growth, elevated inflation, and flagging fiscal and monetary stimulus. Amid the torrents of reports, it's easy for investors to get caught up in the here and now. Yet investing success is most dependably achieved with a long-term perspective.**

Nicholas Jasinski – Barron's 9/29/22

The Federal Reserve hiked its benchmark federal-funds rate by 75 basis points (0.75 percentage point) in September and signaled additional increases were likely. The rate is now targeted at a range of 3% to 3.25%, a level not seen in almost 15 years.

> **We have to get inflation behind us. I wish there were a painless way to do it. There isn't.**

Fed Chairman Jerome Powell – WSJ 9/21/22

Bonds generally help to moderate overall portfolio risk, but that hasn't been the case this year. The rate on the 10-year U.S. Treasury, for example, recently breached 4% for the first time in over a decade. By historical standards, this year's bond performance has been one of the worst on record. With the Fed increasing its key policy rate by three full percentage points this year, bonds have been dramatically repriced.

The world has been hooked on cheap money for years. Now we're witnessing what withdrawal looks like.

Randall W. Forsyth – Barron's 9/23/22

On the last day of the month, the Commerce Department reported consumer prices rose 6.2% in August from a year earlier, easing slightly from the 6.4% advance in July. The core index, which excludes volatile food and energy prices, increased 4.9% in August from a year earlier. This was up from 4.7% in the year through July. The more troubling news for investors: the core index rose 0.6% on a monthly basis, which was up sharply from July when price growth was flat.

Right now, inflation is very broadly based, and it's spread beyond components where you could say, *'Oh clearly, it's driven by supply-chain disruptions.'* It's increasingly demand driven. And the way to deal with that is to cool down domestic demand through interest-rate increases.

Blerina Uruci, T. Rowe Price – WSJ 9/30/22

Central banks around the world have announced a record number of rate increases. This global monetary tightening has been in response to high inflation levels, as well as a soaring dollar … and these rate increases have been relatively large.

The speed with which central banks are working to rein in inflation alongside slowing economic conditions is creating extraordinary uncertainty, lack of conviction, volatility, and lower levels of market liquidity.

Rick Rieder, BlackRock – WSJ 9/30/22

Most of these rate increases are not coordinated … formally or even informally. As a result, the combined effect of this global monetary tightening could push the world economy into a deeper than needed downturn. Or to put it simply, the overall economic impact could be far greater than the sum of its parts.

> **The present danger … is not so much that current and planned moves will fail eventually to quell inflation. It is that they collectively go too far and drive the world economy into an unnecessarily harsh contraction … more damage to growth than would be expected from a simple summing of the effects of the policy actions of individual countries.**
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> **Maurice Obstfeld, former IMF Chief Economist – WSJ 9/25/22**

The U.K. had somewhat of a mini-crisis just after the government announced a plan for sweeping tax cuts and spending hikes. The result was a significant selloff in U.K. government debt, which threatened pensions funds and insurers. The Bank of England responded by initiating an emergency bond buying program to stabilize spiraling debt markets.

> **But the intervention – to stave off an imminent pension crisis – underscored the risks that continuing market turbulence poses to the U.K. financial system and economy.**
>
> **Colchester/Hannon/Dulaney – WSJ 9/28/22**

Japan also moved to strengthen the yen, as the Ministry of Finance used foreign exchange reserves to bolster the currency. This was the first time since 1998 that the country has intervened to support its currency. The Bank of Japan (BoJ) kept its target rate unchanged at negative 0.1% and persevered with its quantitative easing program.

> **As long as the BoJ is maintaining its ultra-easy monetary policy stance and other central banks are tightening, the Japanese Ministry of Finance will be fighting an uphill battle.**
>
> **Nicholas Jasinski – Barron's 9/22/22**

According to the National Association of Realtors, the median existing-home price dropped to $389,500 as of August, after reaching a high of $413,800 in June. Prices typically decline in the late summer, but the past two monthly declines were bigger than usual. Still, home prices have remained stubbornly high due to a lack of inventory.

The average rate on a 30-year fixed mortgage stood at 6.7% … the highest rate in 15 years, according to the most recent survey by Freddie Mac. The average rate was at 3.01% a year ago. Not surprisingly, applications to refinance are down nearly 85% over the past year.

> **If you look at the big picture of where we stand today versus where we were entering this year, we're in a vastly different (home) affordability environment.**
>
> **Andy Walden, Black Knight – WSJ 9/29/22**

Existing homeowners haven't been inclined to sell, instead opting to hang on to their current low mortgage rates. At the end of July, nearly nine out of ten first-lien mortgages had an interest rate below 5%, and more than two-thirds had a rate below 4%, according to Black Knight, Inc. About 83% of those mortgages had 30-year fixed rates.

> **Homeowners with low mortgage rates are balking at the prospect of selling their homes to borrow at much higher rates for their next homes, a development that could limit the supply of houses for sale for years to come.**
>
> **Nicole Friedman – WSJ 9/22/22**

With the U.S. Dollar Index reaching a 20-year high, the dollar is having a "once-in-a-generation rally". A strong dollar makes imports cheaper, boosting Americans' purchasing power. But it also slashes the earnings of U.S. companies doing business overseas, hurts emerging market economies with debt priced in dollars, and negatively impacts a global economy whose most important goods are priced in dollars.

> **The dollar's role as the primary currency used in global trade and finance means its fluctuations have widespread impacts. The currency's strength is being felt in the fuel and food shortages in Sri Lanka, in Europe's record inflation, and in Japan's exploding trade deficit.**
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> **Dulaney/Fujikawa/Feng – WSJ 9/18/22**

The World Bank is concerned about the struggles facing developing nations. These challenges include the escalating costs of food, fertilizer, and energy, as well as rising interest rates, currency depreciation, and capital outflows.

> **The human consequence of these overlapping crises is catastrophic.**
>
> **David Malpass, World Bank President – WSJ 9/28/22**

In a recent report, the World Bank reduced its estimate for global growth to 2.9% this year … down from 5.7% last year. It expects global growth to fall to 2.4% in 2023 before recovering to 3% in 2024.

U.S. corporate profits have held up quite well this year. The obvious reason would be that companies have been able to pass along price increases to their customers. Commerce Department data show that prices for goods sold were 15.2% higher in the second quarter than a year earlier. The Labor Department reported private-sector compensation costs were up only 5.5% during that same period.

Still, U.S. companies are facing plenty of challenges, including a slowing global economy, and a shift in consumer spending away from goods. Weakness in the overseas profits of U.S. multinationals will also be aggravated by the strength of the dollar.

> **Companies' ability to keep raising prices in excess of their cost increases seems doubtful. Not only is the Federal Reserve raising rates in an effort to bring inflation down, consumers willingness to pay up, now that supply-chain snarls are easing, might be limited. Meanwhile, weakening overseas demand and the dollar's strength are only becoming more pronounced.**
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> **Justin Lahart – WSJ 9/27/22**

It's hard to believe that one year ago, the Fed was planning to keep rates near zero for another year, and it was also planning to continue purchasing Treasury and mortgage securities to provide additional stimulus. The economic backdrop can change quickly. That's why it is important to stay humble and be patient … especially in a bear market.

> **Stocks and bonds are tumbling … and I haven't heard a word about nonfungible cartoon monkey tokens in maybe three months. I don't want to set off a panic, but financial markets appear to be careening toward normal. If left unchecked, ordinary assets could soon reach price levels that imply adequate long-term returns.**
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> **Jack Hough – Barron's 9/23/22**

Consumers love a good bargain, but they often struggle to take advantage of declining stock and bond markets. Disciplined investors benefit from volatility by regularly rebalancing to stay within their investment policy guardrails.

The economic and geopolitical issues are more than overshadowing the fact that the U.S. economy is still in solid shape, and employment remains strong. Hang in there, and let us know if we can help.

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