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Market Update: April 2022

World stock and bond investors had a rough April, as markets struggled against multiple headwinds, including high inflation, rising interest rates, Covid spikes, and the ongoing war in Ukraine. Global equities and bonds declined during the month by 8% and 5.5%, respectively.

The bands of uncertainty are wider than I have experienced in my 35 years of practice.

David Rosenberg, Rosenberg Research – SIC 2022 5/2/22

The yield on the 10-year U.S. Treasury note had its largest monthly increase in more than a decade in April. With both stocks and bonds down by double digits year-to-date, even diversified investors have had no place to hide from the carnage.

Bond yields, which rise when bond prices fall, have been surging since the start of the year, with few signs of slowing down. Yields are a key element in how investors value companies' projected profits. Their climb has hit the stock market this year ...

Matt Grossman – WSJ 5/1/22

It was the worst April performance in over 50 years for domestic stocks, while the four-month decline of nearly 14% was the worst opening to a calendar year since 1939. Technology shares have been hit the hardest, with the tech-heavy Nasdaq Composite Index off 13% for the month. Year-to-date, the index is down 21% ... its worst start to a year on record. The thrashing of technology and growth stocks is a dramatic shift from their dominating outperformance of the past decade.

U.S. Gross Domestic Product (GDP) declined 1.4% in the first quarter, according to the Bureau of Economic Analysis. This *advance estimate*,

which is adjusted for inflation, was below the 1.1% growth generally expected by economists.

This doesn't mean we're in a recession – the official definition requires two consecutive quarters of declines – but it certainly validates the worries.

Alex Eule – Barron's 4/28/22

Surging imports, which count as a subtraction in the calculation of GDP, were responsible for much of the first quarter decline. In other words, Americans were buying more foreign goods than foreign nations were buying U.S. products. That is likely because the U.S. economy is recovering faster than other nations. More importantly, consumer spending, housing, and private-sector spending actually grew faster in the first quarter than late in 2021.

Yes, you read that correctly. The most important aspects of the domestic economy held up better than they did at the end of 2021, when growth was soaring ... The domestic economy remains remarkably resilient ...

Diane Swonk, Grant Thornton – Barron's 4/28/22

Inflation occurs when demand is growing faster than supply. During the decades which preceded the pandemic, there was an abundance of cheap capital and labor ... but demand was relatively weak. As a result, inflation and interest rates were persistently low.

Those conditions have now dramatically changed. Demand is strong, but supply is constrained. Demand has been supported by generous fiscal and monetary stimulus, while supply has been limited by labor shortages and Covid-19 induced supply-chain disruptions. Central banks deal only with the *demand* side of this economic balancing act.

Supply glitches are also a product of *environmental and political shocks*. Russia's invasion of Ukraine has triggered shortages in food and energy. Recently, Russia has also halted gas deliveries to Poland and Bulgaria.

Today, the problem isn't with the actual supply of physical commodities but interference with the physical, legal and market mechanisms that get it from one place to another, including war and sanctions, which have strangled Ukrainian and Russian exports of wheat, oil and gas.

Greg Ip – WSJ 4/27/22

The consumer price index rose 8.5% in March from a year earlier, while annual wage growth reached 6% for the average worker. Workers are quitting their jobs at higher rates, demonstrating their strong bargaining power and also fueling inflationary pressures. According to a ZipRecruiter survey, nearly two-thirds of job-switchers reported receiving higher pay from their new employer.

The broadening of wage gains throughout the economy could keep inflation high in coming quarters even if dynamics such as supply-chain disruptions and an energy crunch recede.

Guilford/Cambon – WSJ 4/24/22

Federal Reserve Chairman Jerome Powell recently referred to the U.S. labor market as “tight to an unhealthy level”, and he warned of growing imbalances that could fuel a wage-price spiral that drives inflation higher as workers bid up wages.

The labor market at the moment is even tighter than it was prior to the pandemic.

Carl Tannenbaum, Northern Trust – WSJ 4/28/22

Employers have added an average of 600,000 jobs a month over the past six months, and there remains nearly two job openings available for every unemployed person. Jobless claims, as well as the unemployment rate, remain at or around historical lows.

For now, the economy remains robust ... The financial markets seem to be suffering more than the real economy from the prospect of further Fed tightening, at least so far.

Randall W. Forsyth – Barron's 5/1/22

The Federal Reserve is expected to raise interest rates by a half percentage point at their next meeting. That will mark the first time since 2006 that the Fed has increased its policy rate in back-to-back meetings. It could also be the first time since 2000 that we have seen a half-point increase from the Fed.

At their May meeting, the Fed is also expected to formally announce plans to shrink its \$9 trillion balance sheet ... essentially beginning a double-barreled effort to tame inflation.

It is appropriate in my view to be moving a little more quickly ... I also think there's something in the idea of front-end loading those moves. Economies don't work without price stability.

Fed Chairman Jerome Powell – WSJ 4/21/22

Prolonged Covid-19 restrictions have devastated China's economy, in addition to global supply-chains. In early March, cities representing over 50% of China's GDP had no restrictions. By Mid-April, less than 5% were in that category, while 40% were under harsh restrictions. China's manufacturing purchasing managers index fell in April to the lowest level since February 2020.

The rapid deterioration in the manufacturing reading offers a first glimpse into the stark economic cost of China's zero-tolerance approach to the Omicron variant of the coronavirus ... Most of the harshest measures were imposed in late March.

Jonathan Cheng – WSJ 4/29/22

Shanghai, one of the busiest ports in the world, has been under a virtual lockdown. Almost twice as many ships are currently waiting near Shanghai ports in comparison to the previous year ... which was already dealing with above average activity. Cases are now on the rise in Beijing, where schools are closing amid reports of people in the capital hoarding food and supplies. Will Beijing be the next Shanghai?

This isn't the orderly, efficient China the government likes to portray. People forcibly kept in their homes without food or access to medical care, serenaded by propaganda drones, pets being killed, and inhumane camps for those who test positive sounds more like a dystopian nightmare.

John Mauldin, Mauldin Economics – 4/23/22

The war in Ukraine is driving up energy costs and reducing household spending in the 19-nation eurozone, increasing the risk to economic growth. The eurozone's GDP grew by a modest 0.2% in the first quarter, while consumer prices were rising at an annualized rate of 7.5% in April. The European Central Bank said it is likely to end its bond purchases by September ... clearing the way for its first rate cut since 2011.

If the natural gas supply from Russia were to suddenly stop, it would cause irreversible economic damage. To put it plainly, there is no short-term solution to replace natural gas from Russia. We will use all options to reduce our dependence on Russian gas as swiftly as possible.

Martin Brudermuller, CEO BASF SE – WSJ 4/29/22

Russia's central bank is forecasting economic growth to decline between 8-10%, which is consistent with the most recent assessment by the International Monetary Fund. The central bank also expects inflation in Russia to increase over the next few months to average approximately 20% this year.

Russia may be vast, but it is a medium-sized polity that still yearns to be a superpower. To fill the gap between its capacities and its aspirations, Mr. Putin has repeatedly turned to the only sphere where Russia can still purport to be world-class: military force. It is a welcome fact that the failure of Russia's rotten army in Ukraine weakens this claim. Unfortunately, this also leaves the world facing a nuclear-armed power with a point to prove.

Zanny Minton Beddoes – The Economist 4/28/22



Does anyone still believe there are easy ways to make big money betting on stocks?

You might remember that *Mom and Pop investors* were actively trading options while stuck at home during the pandemic. At the peak of the frenzy, small traders were buying more than 23 million call options a week ... way above any period going back to 2000. New research from economists at the London Business School estimates that day-traders lost about \$5 billion trading options from November 2019 to June 2021.

Turns out, taking leveraged flyers on meme stocks mentioned on Reddit's WallStreetBets trading forum is harder than it looks.

Bloomberg News 4/27/22

Even a broken clock is right twice a day, but don't be fooled. There is no academic research that supports the benefits of market timing strategies. Just look at the Fed's ability to forecast, as they have been wrong about their GDP projections two-thirds of the time. Also, the Fed has initiated a tightening cycle 14 times in the past ... and orchestrated a soft landing on only 3 of those occasions.

There is only one way out of the inflation problem in the U.S. and it isn't going to be a soft landing. It seems there are two realistic scenarios for how the coming months play out. Both end with recession. Either the Fed sufficiently fights inflation or it doesn't

...

Lisa Beilfuss – Barron's 4/29/22

With all our current economic challenges, we should anticipate ongoing market volatility. History tells us that the Fed will probably not orchestrate a soft landing. So, a recession may be in the cards over the next year or so ... the length and severity being anyone's guess.

But recessions come and recessions go. We have experienced quite a few over our 32+ years in business. They create plenty of immediate angst, but offer substantial longer-term opportunities.

As always, call us anytime with specific questions or just to talk about the current situation.

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