CORRIGAN FINANCIAL, INC.

Market Update: June 2023

Global stock markets returned 5.8% during June, with domestic and foreign equities advancing 6.8% and 4.5%, respectively. The second quarter ended with returns of just over 6% for global equities and was led by double-digit returns for technology stocks. Global equities are now sporting returns of nearly 14% for the first half of 2023.

> **Stocks closed out the day with solid gains, marking the end of a banner week, a banner month, a banner quarter, and a banner first half.**
>
> **Alex Eule – Barron's 6/30/23**

Stocks have now officially left "bear market territory", powered in part by the enthusiasm surrounding advances in artificial intelligence. The technology heavy Nasdaq Composite Index has gained over 32% since the end of 2022 … its best first half performance in four decades.

> **Nothing could faze U.S. stock indexes during the first six months of 2023 – not the Federal Reserve, not a series of bank failures, not geopolitics, not even the down-to-the-wire debt-ceiling drama in Washington. And certainly not the fact that a recession felt like it was always just around the corner.**
>
> **Nicholas Jasinski – Barron's 6/30/23**

The stock market rebound actually started in the fourth quarter of 2022. Over the past three quarters, global stocks have jumped 25%, with the performance of domestic and foreign stocks in a virtual *dead heat*. Although many investors are still traumatized by the equity market declines of calendar year 2022, they should really be focused on the 14%

compounded performance of domestic stocks over the most recent 36-month period.

> **Why did markets keep rising, despite a banking crisis, the threat of a U.S. default and more interest-rate increases from the Federal Reserve? The simplest answer: Time and time again, investors' worst-case scenarios failed to materialize.**
>
> **Akane Otani – WSJ 6/30/23**

Bond market performance was generally flat during June, slightly down for the quarter, and ended the past six months only modestly ahead. The yield on the 10-year U.S. Treasury note ended June at 3.8%, up from the 3.5% yield on March 31. The yield actually stood at 3.8% to start 2023. Global bond market averages, however, have returned about 6% over the past nine months.

> **Bonds are back. I haven't seen this kind of opportunity in a long time, after a decade of yields at the zero lower bound.**
>
> **Sara Devereux, Vanguard – Barron's 6/8/23**

The Fed held interest rates steady in June, after 10 consecutive rate hikes since March 2022 which raised rates by a combined 5 percentage points. Economists expect the Fed to make two more quarter-point increases this year.

The two-year U.S. Treasury now yields about 4.9%, up from just over 4% on March 31, and still well ahead of the 10-year yield. This represents an *inversion* of the normal yield curve, which typically signals an impending recession. Basically, an inverted yield curve means that investors think the economy will slow, inflation will continue to decline, and the Fed will eventually begin to cut rates.

The basic point is that markets and most economists agree that at some point rates are going to come down again.

James Mackintosh – WSJ 6/23/23

Inflation continues to moderate. The consumer-price index rose 4% in May from a year earlier, down considerably from the recent peak of 9.1% last June. On a seasonally adjusted basis, consumer prices increased 0.1% in May from the previous month.

Household spending in May was basically flat when adjusted for inflation. The Federal Reserve Bank of San Francisco reported in May that U.S. households have about $500 billion left in so-called excess savings from pandemic stimulus.

The global economy is exiting a period of massive fiscal monetary policy interventions that are unlikely to be repeated over our secular horizon. After the post-pandemic surge in global inflation, central bankers are starting to recognize that unconventional monetary policies bear costs as well as deliver benefits, while surging sovereign debt levels will likely limit fiscal capacity to address future downturns.

PIMCO, The Aftershock Economy – 6/9/23

Consumer spending is expected to soften due to higher interest rates and the resumption of student-debt payments. Interest will start accumulating on Federal student loans on September 1, and payments are due starting in October.

China's economy continues to struggle. Manufacturing has contracted for the third straight month, as political tensions encourage some global manufacturers to diversify their supply chains. Home sales for the top 100 Chinese property developers declined in value by 28.1% in June from a year earlier. The unemployment rate for workers aged 16 to 24 reached

a record 20.8% in May. The decline in employment comes at a time when millions of new graduates are expected to enter the job market in July.

> **China is facing a host of challenges that economists warn will threaten its long-term growth potential in the absence of drastic reforms. They include a mounting debt burden, stubbornly high youth unemployment, and a short-lived rebound in the beleaguered real-estate market.**
>
> **Stella Yifan Xie – WSJ 6/30/23**

Beijing is attempting to revive the country's slumping economy by increasing infrastructure spending, supporting property investment, and reducing interest rates. Economists are skeptical about such moves, as businesses and consumers are generally not willing to take on more debt at this time.

> **Even given China's big problems – high youth unemployment, unfavorable demographics and the leadership's increasing "fortress economy" mind-set – the speed with which its post Covid recovery has unraveled is remarkable.**
>
> **Nathaniel Taplin – WSJ 6/15/23**

The European Union reported the combined GDP of the countries that share the euro fell by an annualized 0.4% during the three months through March. Since the previous quarter was also in decline, the eurozone is now technically in recession. Germany, usually Europe's growth engine, is now the biggest drag on its economy.

> **In times of weak global demand, Germany is simply not competitive as a location.**
>
> **Matthias Zachert, Lanxess CEO – WSJ 6/23/23**

The European Central Bank, the Bank of Canada, the Reserve Bank of Australia, and the Bank of England (BOE) have all recently raised their key interest rates by half a percentage point to curb inflation. The U.K.'s inflation rate, which in May was 8.7% higher than a year earlier, has proven to be stubbornly high.

> **Inflation is still too high, and we've got to deal with it. We know this is hard. But if we don't raise rates now, it could be worse later.**
>
> **Andrew Bailey, BOE Governor – WSJ 6/22/23**

Economists estimate that more than a million people have left Russia since the invasion of Ukraine. The movement is being compared to the emigration during the 1917 revolution and the demise of the Soviet Union in 1991. This has exacerbated negative demographic trends of fertility, aging, and high death rates.

> **The war in Ukraine has fueled Russia's worst labor crunch in decades, after hundreds of thousands of workers fled the country or were sent to the front lines, weakening the foundations of an economy weighed down by sanctions and international isolation.**
>
> **Georgi Kantchev – WSJ 6/15/23**

While the majority of the world economies are struggling or officially in decline, the U.S. remains quite resilient. How long will that last? No one really knows … although many have strong opinions.

The U.S. job market remains strong, consumers continue to spend, and the real estate market seems to be stabilizing. GDP growth for the first quarter was recently upgraded, while second quarter estimates point to solid growth. Inflation is on the decline, and Fed rate hikes are in the late stages.

Still, plenty can go wrong. Excess household savings are being spent down, tightening lending standards could hurt small businesses, while the lagging effects of Fed rate hikes could easily derail the economy.

Most economists still anticipate a recession. The timing and impact are the big unknowns. Maybe it comes later this year or early next year, but most seem to expect the decline to be modest. As investors, we shouldn't get too caught up in all the noise. Consider the recent stock market performance:

- Technology stocks were crushed last year, but have rebounded sharply this year.
- Value stocks survived the 2022 market decline better than growth stocks, but growth stocks are now on a tear.
- International stocks outperformed last year, but have lagged U.S. markets so far this year.

On the other hand, over the past 9 months U.S. and foreign stocks are both up around 24% … with international stocks slightly ahead. Over the past 36 months both growth and value stocks have solid double-digit returns, but value stocks have actually outperformed by just over a full percentage point.

All of the above are examples of why timing the market is a loser's game. A recent Vanguard study found that the average mutual-fund investor fared worse than the funds they actually own. This so-called *return gap* or *investor gap* is material, and it is a function of investor behavior. The study also found that return shortfalls are even worse during times of high volatility.

The research concludes that timing strategies are at best a zero-sum game, while wealth planning delivers value at a very high probability.

Daniel G. Corrigan, CPA/PFS, CFP®