CORRIGAN FINANCIAL, INC.

Market Update: July 2022

Global stocks bounced back with returns of nearly 7% for the month of July. Domestic stocks led the way with gains of over 9% for the month, with growth stocks outperforming their value counterparts. Global equity markets remain down by over 14% year-to-date.

> **Financial markets, from stocks to bonds to cryptocurrencies, have been exuberant lately – irrationally so, one might argue – on the premise that the Federal Reserve is near its maximum degree of policy restraint.**
>
> **Randall W. Forsyth – Barron's 7/30/22**

The yield on the benchmark 10-year U.S. Treasury note ended the month at 2.6% after nearly reaching 3.5% in mid-June. The 2-year Treasury settled in at a yield 2.9%, extending the period where shorter-term bonds are trading at higher yields … an economic event otherwise known as an *inverted yield curve*.

> **The Treasury yield curve remains deeply inverted – reflecting the market's expectation that rates will rise, then fall, over the coming year.**
>
> **Nicholas Jasinski – Barron's 7/28/22**

The Bureau of Economic Analysis just issued its preliminary estimate for second quarter gross domestic product (GDP). The official data registered a 0.9% annualized rate of decline, following a 1.6% plunge in the first quarter.

With two consecutive quarterly declines, the U.S. economy has technically met a commonly used definition of recession.   However, the National Bureau of Economic Research Business Cycle Dating Committee remains the official arbiter of U.S. recessions, and their determination generally occurs well after the fact.

> **Whether a recession is eventually declared, the message from the latest economic data is just as sobering: The recovery is, effectively, over.**
>
> **Greg Ip – WSJ 7/28/22**

Some economists suggest that unconventional factors … such as private nonfarm inventories and swings in net exports … are affecting the GDP calculation. Consumer spending, which accounts for about two-thirds of total economic output, remains relatively strong. Although hurt by inflation pressures, consumers have been supported by a strong labor market.

American households also have healthy balance sheets. According to Moody's Analytics, households still held $2.5 trillion in excess savings as of May.

> **We're in a sentiment recession. I don't think we're in an actual recession. The growth slowdown has been driven by inflation and price shocks – as they fade in the near term, that should allow growth to accelerate.**
>
> **Aneta Markowska, Jefferies – WSJ 7/28/22**

With inflation still running at 40-year highs, the Federal Reserve announced another 75 basis-point rate hike. The benchmark federal-funds rate now stands at a range between 2.25% and 2.5%. With June's headline inflation rate at 9.1%, real rates (adjusted for inflation) are still well into negative territory.

Fed Chairman Jerome Powell offered few specifics about future hikes and actually hinted at the potential for an eventual slowdown. He did insist that the Fed was committed to returning inflation to the stated 2% target.

I do not think the U.S. is currently in a recession. There are just too many areas of the economy that are performing too well. Are we seeing the slowdown in economic activity that we think we need? There is some evidence we are, at this time.

Jerome Powell, Fed Chairman – WSJ 7/28/22

Even with high inflation and declining economic output, the U.S. labor market remains remarkably strong. But there are also some conflicting indicators. For example, the share of adults working or looking for work is still below prepandemic levels, and the supply of workers actually declined slightly in the spring.

It's not yet finding a balanced position post-pandemic. The labor market is still evolving in the wake of the pandemic recession.

Nela Richardson, ADP Chief Economist – WSJ 7/28/22

The European Central Bank raised rates by 50 basis points (one-half percentage point), taking its key interest rate to zero. This effectively ends the ECB's eight-year experiment with negative interest rates. In fact, the world's total negative yielding debt now stands at $2.4 trillion … down 87% from the $18.4 trillion peak reached in December 2020.

Investors' willingness to buy debt that guaranteed a loss if held to maturity was one of the most unusual quirks in financial markets of the last decade.

Caitlin McCabe – WSJ 7/26/22

Western governments continue to sanction Russia over its invasion of Ukraine, while Moscow fights back by choking supplies of essential energy and food. Energy is the most sensitive issue for the European Union, while Russia faces deep recession and ongoing struggles to import vital technologies.

If Europe sticks with it, and they don't give up, in the long-run, Russia's economic position is quite dire.

Gerard DiPippo, Ctr for Strategic and Intl Studies – WSJ 7/27/22

Economic growth in the eurozone increased by 0.7% in the second quarter, faster than the 0.1% first quarter advance. With both the U.S. and China showing GDP declines, the world's third-largest economy was the most significant global market to avoid a contraction.

That is unlikely to be true in the coming quarters … Russia cut its supply of natural gas to levels that will make it challenging for the eurozone to get through the winter without some form of energy rationing.

Paul Hannon – WSJ 7/29/22

The effects of the pandemic, along with Russia's invasion of Ukraine, are causing hunger emergencies in some of the world's poorest countries. In particular, Somalia is dealing with its worst hunger crisis in a half-century.

The World Food Program reports that an additional 47 million people now have acute food insecurity … meaning they are not able to consume enough calories to sustain life and livelihood. This elevates the total to 345 million people worldwide. Of those, about 50 million are living on the edge of famine.

The combination of factors that we have now, which we see most severely manifesting in countries like Somalia, could be the harbinger for what is coming on a bigger scale.

Alex De Waal, Tufts University – WSJ 7/10/22

High prices and rising mortgage rates are taking a toll on the housing market. The average rate on a 30-year fixed-rate mortgage ended the month at 5.3% according to Freddie Mac, down from the 13-year high of 5.81% recorded in June. The rate was approximately 3.2% at the start of this year.

> **Overall, existing-home sales have dropped for five consecutive months. After two years of booming sales and skyrocketing prices, declining affordability and economic uncertainty have pushed some buyers out of the housing market. More sellers are cutting their list prices, and price growth is expected to slow in the coming months.**
>
> **Nicole Friedman – WSJ 7/26/22**

Residential construction also slowed in June for the second straight month, while housing starts and the number of building permits also declined.

> **That tells me that builders feel like a storm is coming. They're battening down the hatches and really focusing on making sure that they can sell the homes they have completed now and the homes that they've actually already got under contract.**
>
> **Jeff Tucker, Zillow – WSJ 7/19/22**

The University of Michigan has been surveying consumer sentiment for the past 76 years. Over that period, every recession has been marked by a decline in consumer sentiment … and July's survey showed that sentiment remains at historical lows.

> **There are all kinds of disconnects in this economy, but there's a very strong disconnect between how people say they feel and how they're behaving. This gap between sentiment and behavior is the widest I've ever seen.**
>
> **Mark Zandi, Moody's Analytics – WSJ 7/31/22**

The job market is strong, households still have high levels of cash, supply-chain disruptions are easing, and commodity prices are weakening. It's hard to image that consumer confidence is at the lowest point in the entire 76 years of the survey.

> **Really? Worse than when unemployment was almost double the current level and inflation in double digits in 1980, with interest rates at 14.5%? Worse than after the 9/11 attacks, or when the global banking system was on the brink of failure in 2008? Come on.**
>
> **James Mackintosh – WSJ 7/6/22**

The big concern now is that low consumer confidence can be a self-fulfilling prophesy. On the other hand, it can be a great contrarian indicator. Some of the best times to invest have been when confidence has been shaken.

> **The intelligent investor is a realist who sells to optimists and buys from pessimists.**
>
> **Benjamin Graham, Legendary Economist/Author**

The Fed's aggressive stance has been effective in slowing demand and growth. So, bad economic news has turned out to be good news for the markets. July was a needed *breather* for weary investors, and yet another example of the benefits of being humble and disciplined.

Daniel G. Corrigan, CPA/PFS, CFP®