CORRIGAN FINANCIAL, INC.

Market Update: June 2022

After plummeting 8.4% in June, global stock markets are now down by over 20% in just the first six months of 2022. For U.S. stocks, this marks the worst six-month start in over 50 years. Bond investors also suffered through double-digit losses, with the broad U.S. index of fixed-income securities recording its worst first half on record.

> **The first half of 2022 was historically bad for stocks, bonds, cryptocurrencies, and practically every other asset class outside of commodities.**
>
> **Nicholas Jasinski – Barron's 6/30/22**

Supply disruptions, the pandemic, and Russia's invasion of Ukraine have all helped to fuel escalating inflation. In particular, oil prices have gained over 40% this year, with Brent crude, the global oil benchmark, ending June at nearly $115 per barrel. U.S. consumers have been hit hard by record setting gasoline prices that reached $5 a gallon in June.

> **The big picture is that global demand for oil is back to, if not exceeding, pre-Covid levels, but global supply is not. We're continuing to have this persistently undersupplied oil market.**
>
> **Rob Thummel, TortoiseEcofin – WSJ 6/30/22**

With inflation running at a 40-year high, the Federal Reserve approved a 0.75-percentage-point rate increase during their two-day policy meeting in June. The rate hike, which increases the Fed's benchmark federal-funds rate to a range between 1.5% and 1.75%, is the largest since 1994.

The worst mistake we could make would be to fail to bring down inflation. It's not an option. We have to restore price stability.

Fed Chairman Jerome Powell – 6/15/22

The Fed signaled it would continue to lift interest rates at the most rapid pace in decades. Fed Chairman Jerome Powell also acknowledged that it is becoming more difficult to achieve what is known as a soft landing … a result that would bring down inflation while avoiding a recession.

The runway for the Fed to manage a soft landing is not only narrow but also winding and bumpy.

Lauren Goodwin, New York Life Investments – WSJ 6/30/22

When will the next recession occur? According to a Wall Street Journal survey, 44% of economists expect a recession to occur sometime within the next twelve months. Such high expectations are usually recorded only during or near economic recessions.

Recessions are generally defined as two consecutive quarters of declining gross domestic product (GDP). From a technical standpoint, however, recessions are determined by a panel at the National Bureau of Economic Research, a nonprofit academic group.

The key questions investors face now are whether inflation has already peaked, and, if so, whether it will decelerate quickly enough to limit the need for a prolonged monetary tightening campaign by the Fed.

T. Rowe Price – 2022 Midyear Outlook

U.S. GDP for the first quarter was revised down by the Commerce Department to a contraction of 1.6% … slightly worse than the 1.5% initial estimate. The Commerce Department also reported that consumer spending grew by only 0.2% in May, the smallest monthly gain this year.

Remember, consumer spending drives the U.S. economy and is responsible for about 70% of total production.

In response to the soft consumer spending data, S&P Global Market Intelligence now expects U.S. GDP to contract at a 1.5% annual rate in the second quarter. Earlier in June, they actually expected a slight gain.

> **This solidifies evidence of a downturn trend in consumer spending, which is the backbone of the economy. There's very little expectation or hope that the economy can avoid a near-term downturn.**
>
> **Lindsey Piegza, Stifel Financial – WSJ 6/30/22**

So, we could technically be in recession now. That doesn't mean we will have to experience anything like the Great Recession and financial crisis from 2007-2009. On the other hand, we shouldn't expect a quick rebound like we witnessed after the pandemic induced recession in early 2020.

Recessions are always marked by declining economic output and rising unemployment. It would be somewhat puzzling to be in recession now, since the current job market is still strong.

> **Recessions do not naturally begin in an economy with two job openings for every job seeker. That said, there's nothing natural about recessions. In 1998, MIT economist Rudi Dornbusch observed that "none of the post-war expansions died of natural causes, they were murdered by the Fed". The**

> **motive for this murder is usually to save the economy from incipient inflation by killing the economy.**
>
> **Research Affiliates – June 2022**

Inflation measures for May were also just released by the Commerce Department. Core measures, which exclude volatile food and energy prices, rose 4.7% from a year earlier and 0.3% on a monthly basis. Both figures were slightly below expectations, but still at or around 40-year highs. Personal income rose 0.5% in May, but after taxes and other charges, *personal disposable income* declined 0.1% for the month and 3.3% from a year ago.

> **The rising cost of living absorbed all of the increased spending power from added jobs and higher wages in May. Americans are running faster just to stay even. No wonder consumer confidence is in the pits.**
>
> **Bill Adams, Comerica Bank – CNBC 6/30/22**

The yield on the 10-year U.S. Treasury note ended the month at 3% … down from a recent high of 3.48% reached on June 14 … but still about double the rate at the start of the year. Yields softened as the month ended due to signs of slowing economic growth, record-low consumer sentiment, and household budgetary constraints.

> **As anxiety about growth mounts, investors are re-evaluating how they expect the Fed to steer the economy, with some now pondering whether slowing growth may lead the central bank to ease away from aggressive interest-rate hikes sooner than previously expected.**
>
> **Matt Grossman – WSJ 6/30/22**

The average fixed rate, 30-year mortgage ended June at 5.7% … up from the 3.22% rate at the beginning of the year. The Federal Reserve

Bank of Atlanta estimates that it would require 41.2% of median household income to cover mortgage payments on a median-priced home in April of this year. That is well above the 30.8% of household income required back in April 2021.

The housing market is one of the most interest-rate-sensitive segments of the economy. While sales of previously owned homes fell in May for the fourth straight month, the supply of homes on the market continues to be extremely tight.

> **Still, demand for homes continues to outpace the inventory of homes for sale. Nearly 60% of the homes sold in May were sold above their list price, according to real-estate brokerage Redfin Corp.**
>
> **Orla McCaffrey – WSJ 6/30/22**

Over the past couple of years, the crypto sector's market value exploded from $200 billion to a peak of $3 trillion by November 2021. Cryptocurrencies and the related digital asset ecosystem now find themselves encountering severe turbulence. After plummeting by 56% in the second quarter of this year, crypto's market value now stands at about $890 billion.

> **Crypto's rocket ship to the moon crash-landed back on Earth in the second quarter.**
>
> **Paul Vigna – WSJ 6/30/22**

History suggests that markets tend to rebound after dismal first half performances. According to Dow Jones Market Data, when domestic stocks have fallen at least 15% in the first six months of a year ... which happened in 1932, 1939, 1940, 1962, and 1970 … they have rebounded an average of 24% in the second half of the year.

One reason markets have often snapped back after big pullbacks: Investors have eventually stepped in, wagering prices have fallen too far.

Akane Otani – WSJ 6/30/22

Declining markets create long-term opportunities, but they can be very stressful for investors. It's generally well-known that the pain of losing is more powerful than the pleasure of gaining. Studies suggest that checking your balances too often during a market decline not only creates more pain, but it can derail your financial security.

When markets are down people get concerned and want to check their balances. But that can be counterproductive.

Julie Virta, Vanguard Group – WSJ 7/2/22

In fact, two landmark studies by behavioral economists found that the more people looked at their 401k balances, the lower their long-term returns were likely to be. Apparently, people who did not monitor the markets closely were likely to invest more in stocks.

As with any stressful, volatile environment, it can be helpful to remind clients what's out of their control and the actions that are in their hands. They can't control the direction of the economy, interest rates, or inflation … but they can control their own behavior, recognizing that knee jerk moves in response to market activity are rarely helpful.

Christine Benz, Morningstar – ThinkAdvisor 6/29/22

Fears of recession, declining disposable incomes, escalating food and fuel costs, and declining 401k balances … households are experiencing a rough patch. Try to remain disciplined, and let us know if we can help.

Daniel G. Corrigan, CPA/PFS, CFP®