CORRIGAN FINANCIAL, INC.

Market Update: February 2024

Global stocks returned 4.3% in February and are now up 4.9% over the first two months of 2024. Year-to-date, domestic and foreign equities have delivered returns of 6.6% and 1.5%, respectively. All three major U.S. stock indexes are now on a four-month winning streak. The technology-heavy Nasdaq Composite Index closed at a record high on the last day of the month. It was the first record high for the Nasdaq since November 2021 … a streak that lasted 569 trading days.

> **Stock-market investors are an ebullient bunch, boosted by continued enthusiasm around *artificial intelligence* (AI), a solid earnings season, and a strong economy with sticky but not awful inflation trends.**
>
> **Alex Eule – Barron's 3/1/24**

Nvidia is currently the poster-child for AI exuberance. The company dominates the market for graphics processing units (GPUs), chips that are critical for the development of artificial-intelligence systems. Its shares are up over 50% year-to-date after more than tripling in 2023. While it took Nvidia 25 years to reach a valuation of $1 trillion, it took only 8 months to reach $2 trillion. Now only Apple and Microsoft have higher market valuations.

> **This last year, we've seen generative AI really becoming a whole new application space, a whole new way of doing computing. A whole new industry is being formed, and that's driving our growth.**
>
> **Jensen Huang, Nvidia CEO – WSJ 2/22/24**

The Commerce Department just released the Federal Reserve's preferred measure of inflation, the personal consumption expenditures (PCE) price index, for the month of January. The PCE, excluding food and energy, increased 0.4% for the month and 2.8% from a year ago. The headline PCE, which includes the volatile food and energy categories, increased 0.3% for the month and 2.4% from a year ago.

> **Regardless, the overall message was similar. Inflation is making progress toward the Fed's *annual* goal, but the month of January was a step back along that journey.**

Nicholas Jasinski – Barron's 2/29/24

The U.S. economy continues to show surprising strength, even in the face of weakness in Europe, Japan, and China. Economic growth (inflation adjusted GDP) came in at 3.2% for the fourth quarter, following the 4.9% advance in last year's third quarter. Also, the Labor Department reported the addition of 353,000 jobs in January. The labor report was a blockbuster… the strongest in a year and nearly double the level expected by economists.

> **As with your body's vital signs – pulse, temperature, etc. – these economic vital signs may not show potentially serious chronic conditions. They don't prove everything is well. Nonetheless, they suggest the economy isn't in imminent danger.**

John Mauldin – Mauldin Economics 2/24/24

Unexpectedly strong economic data has helped to drive interest rates up over the past two months. The 10-year U.S. Treasury yield, which began the year at 3.86%, settled at 4.25% to end the month. Rising rates have pushed global bond returns down about 2% year-to-date.

Consumer spending accounts for about two-thirds of economic activity. U.S. retail sales fell 0.8% in January on a seasonally adjusted basis. The decline was larger than expected and came after a strong holiday shopping season. Over 8% of outstanding credit card debt is more than a month overdue, above the 7% level recorded prior to the pandemic. It could also be a sign that resilient consumers may be looking to take a breather.

Credit card and auto loan transitions into delinquency are still rising above pre-pandemic levels. This signals increased financial stress, especially among younger and lower-income households.

Wilbert van der Klaauw, New York Fed – Barron's 2/6/24

China's economy continues to struggle with slowing exports, deflationary pressures, and its bursting property bubble. Exports were actually down 8.4% in December from a year earlier. Consumer prices fell 0.8% in January, the steepest decline in more than a decade, while producer prices have fallen every month for more than a year.

The prolonged real estate slump remains Beijing's biggest concern. Only a few years ago, China's real estate market was estimated to represent about 25% of its overall economy.

China's real-estate downturn is getting worse. The latest bad news: A sharp drop in the average price of a new home in 70 big cities in mainland China, a proxy for the national market.

Cao Li – WSJ 2/23/24

Based on data just released by China's National Bureau of Statistics, new home prices in January were down 1.24% from a year earlier, and secondhand home prices were off by 4.4% … the sharpest such decline in nearly 9 years. As a result, consumer confidence is now at 30-year lows according to government surveys.

The bottom for the housing prices is far from being reached. It will not happen in 2024.

Liu Yuan, Centaline – WSJ 2/23/24

The People's Bank of China just reduced the five-year loan prime rate, a home loan benchmark, by 25 basis points (from 4.2% to 3.95%). The cut, which was much larger than economists expected, is yet another attempt to prop up the housing market.

> **Economists fret that without more aggressive government and central bank support to rekindle growth, China could slip into a rut of falling prices that becomes harder to reverse the longer it lasts.**
>
> **Grace Zhu – WSJ 2/20/24**

After peaking at 38915.87 on the last trading day of 1989, Japan's benchmark stock average (the Nikkei) proceeded to plummet more than eighty percent. Finally, after waiting more than three decades, the Nikkei managed to hit a new record high this month … closing above 39000 on February 22.

> **The last time investors were really salivating over Japanese stocks, the Walkman was still a thing and headbands were essential fashion accessories.**
>
> **Jacky Wong – WSJ 2/21/24**

Japan's equity performance over the past 34 years is comparable to the U.S. stock market crash during the Great Depression … when it took a quarter of a century for the U.S. market to hit a new high.

> **At the highest level, it is a sign of just how bad things have been, which isn't something one usually celebrates. It's more like a funeral than a birthday … The real reason to celebrate is psychological, as Japan bids farewell to the hangover from that bubble.**
>
> **James Mackintosh – WSJ 2/22/24**

Japan's transformation can be attributed to the changes made by the late Prime Minister Shinzo Abe, who encouraged active boards and a focus on shareholder returns. Still, only about one in eight Japanese citizens own stock, while the country's overall economic growth remains sluggish at best. In fact, Japan's economy is technically in recession, as it has contracted for two consecutive quarters.

> **Japan's next challenge is building an economy as healthy as its stock market … There is a big gap between stock prices and the real economy, and that is why I cannot celebrate too soon. This is a watershed year in which we must extricate ourselves from economic malaise.**

Takeshi Niinami, CEO Suntory Holdings – WSJ 2/22/24

The commercial real estate market could be the next shoe to drop. Rents from long-term leases are gradually on the decline, and more than $2.2 trillion of U.S. commercial property loans is set to come due over the next few years. Banks are big lenders to real-estate owners and developers. As occupancy rates decline, so do valuations. Many banks could be forced to absorb material losses.

> **The commercial real-estate pain in the office sector is just starting. Small and midsize lenders especially face substantial numbers of loans to office landlords that refinance in the next 24 months … creating a *rolling recession* for banks that could drag on for some time.**

Anne Walsh, Guggenheim Partners – WSJ 2/1/24

Cathy Wood, the CEO of ARK Investment Management, is considered by many to be the guru of *disruptive innovation*. Two years ago, she predicted that artificial intelligence would enable economic growth to accelerate as much as 55% annually. Her flagship fund, however, believed Nvidia was over-priced, and she sold its holdings in early 2023.

> **Wood is hardly alone in struggling to keep up with this top-heavy market. In any case, ARK's conspicuous absence from the list of big Nvidia winners underscores the challenge of predicting disruptive breakthroughs and judging which stocks stand to benefit – and when to jump in and out.**
>
> **Justina Lee – The Wealth Advisor 2/22/24**

There are always plenty of negative factors and *uncertainties* to offset positive headlines. For example, these economic indicators are now on the decline: manufacturing, labor force participation, global trade levels, housing sales, as well as housing supply. On top of that, we live in a world awash in debt, and geopolitical risks are on the rise.

> **For many people, uncertainty is something to avoid or at least mitigate. Without it, returns would be predictable and there would be no difference between putting your money in a savings account or investing it in the stock market … The potential risk makes possible the potential reward. So, thank goodness for uncertainty.**
>
> **David Booth, Dimensional Advisors – *Uncertainty is Underrated***

We do battle with uncertainty every day by maintaining our discipline and staying humble with regard to future economic developments. Tax season is upon us, and spring is just around the corner. As always, we greatly appreciate your continuing support.

Daniel G. Corrigan, CPA/PFS, CFP®