



CORRIGAN FINANCIAL, INC.

## **Market Update: June 2024**

Global stocks returned just over 2% in June, while recording gains in excess of 11% through the first half of 2024. U.S. stocks led the way, as the artificial intelligence frenzy propelled the S&P 500 to record highs and gains of just over 15% year-to-date.

**So far, Nvidia has contributed 30% of the S&P's total return, including dividends, this year ... throw in Google parent Alphabet, Microsoft, Facebook parent Meta Platforms and Amazon.com, and you have accounted for half of the broad U.S. stock index's returns.**

**Karen Langley – WSJ 6/28/24**

Large U.S. value stocks and foreign equities are up over 5% so far this year. While those are solid six-month returns, they pale in comparison to large U.S. growth stocks that are up about 20% year-to-date. Then again, small company stocks, domiciled here and abroad, are barely in positive territory over the past six months.

**This narrowing of the market is prompting concern among technical analysts, who think broad gains by lots of stocks – so-called breadth – make a bull market more sustainable.**

**In fact, what it indicates is that there are two different things pushing stocks around: demand for chips to drive artificial intelligence, and concern about the economy and interest rates.**

**James Mackintosh – WSJ 6/20/24**

Global bond returns were generally flat in June. But with rates rising over the past six months, returns are down over 3% year-to-date. The yield on the benchmark 10-year U.S. Treasury note now stands at 4.342% ... up from 3.860% at the end of 2023.

The Commerce Department reported the *core personal consumption expenditures index (Core PCE)*, the Federal Reserve's preferred inflation measure, rose just 0.1% in May and 2.6% over the past twelve months. While still above the Fed's 2% goal, the current measure is the lowest in more than three years and down from 4% just one year ago.

**From the market's perspective, today's PCE report was near perfect. This was unambiguously a positive report.**

**David Donabedian, CIBC Private Wealth – CNBC 5/27/24**

The labor market has cooled down from the overheated pandemic-driven days. The unemployment rate stood at 4% in May, up slightly from the 3.4% half-century low of last year, but consistent with what economists consider to be *full-employment*. According to the CME Group, traders are pricing in a 60% chance the Fed will lower rates at its meeting in September.

**Fed officials say they can take their time to cut interest rates so long as the labor market stays healthy. On the other hand, there are signs consumer spending has slowed. And if the labor market keeps loosening, it might be hard to stop, which weighs in favor of cutting rates sooner.**

**Nick Timiraos – WSJ 6/30/24**

The European Central Bank (ECB) lowered its key interest rate by a quarter point in June, the first rate cut in almost five years. Central banks in Sweden, Switzerland, and Canada have already cut rates this year. The Bank of England recently decided to leave its key rate at 5.25%, despite easing inflation.

**The ECB move leaves the Fed late to the rate-cut party among developed-market central banks.**

**Fairless/Kiernan – WSJ 6/6/24**

According to the National Association of Realtors (NAR), the national median existing-home price reached a record \$419,300 in May ... a 5.8% increase from a year earlier. Sales of previously owned homes declined for the third straight month and are down 2.8% on an annual basis.

**Somewhat of a strange phenomenon, where we have low home-sales activity yet prices are hitting record highs. Affordability is a challenge.**

**Lawrence Yun, NAR's Chief Economist – WSJ 6/21/24**

The median price of an existing home prepandemic was \$270,400, while the average mortgage rate was just shy of 4 percent. With current mortgage rates at about 7 percent, mortgage payments for the buyer of the median-price home have more than doubled since the onset of the pandemic. Many potential home buyers are still waiting for mortgage rates to drop.

**Once lower rates arrive, they will shake up almost every corner of the housing market ... sales will pick up, and existing-home prices will stagnate or drop as supply expands.**

**Shaina Mishkin – Barron's 6/25/24**

An estimated two-thirds of outstanding U.S. mortgages have a rate below 4 percent. Rather than selling and financing a new home at current rates, many homeowners are staying put. This "mortgage rate gap" is the widest since at least the 1980s and is severely limiting the inventory of available homes.

**Blame the “lock-in” effect of ultracheap mortgages secured when interest rates were low, which are trapping owners in their homes. It is an unforeseen consequence of years of easy money.**

**A less obvious loser is the U.S. labor market. Workers are reluctant to accept job offers in other states if it means sacrificing low housing costs, so labor mobility has taken a hit.**

**Carol Ryan – WSJ 6/28/24**

Given the implosion of China’s housing market, domestic demand has been struggling for some time. Despite Beijing’s stimulus efforts, price declines have widened in 70 major Chinese cities. Home sales through May are down over 30% from a year earlier, while investment in the housing sector saw a double-digit decline.

**Alongside the weakness in consumer spending are fears over the property slump and the concerns about employment and household income.**

**Singapore Editors – WSJ 6/16/24**

In response, Beijing’s export engine has tried to fill the void. Not surprisingly, China’s most recent trade data had imports in May increasing only 1.8%, while exports were up 7.6% from a year earlier. Western countries have responded with new tariffs and duties on Chinese goods.

China is also finding new markets, as they are selling less to the West and more to Southeast Asia and Latin America. Also, sales to Russia have increased 70% in the past two years.

**China’s export pivot toward developing countries has worked out so far. But in an increasingly protectionist world, that playbook will also face limits.**

**Jacky Wong – WSJ 6/12/24**



The Congressional Budget Office (CBO) just increased its projection of the current year's federal budget deficit to \$2 trillion from the previous \$1.6 trillion estimate. That puts this year's deficit at 6.7% of gross domestic product (GDP).

**It also means that, after shrinking to \$1.4 trillion, or 5.4% of GDP, in 2022, the deficit has widened again even as the real economy has run hot and the unemployment rates have remained unusually low.**

**Paul Ashworth, Capital Economics – Barron's 6/21/24**

Deficit spending by the U.S. appears to be out of control, with deficits projected to reach 122% of GDP by 2034 ... the highest level ever recorded. The CBO projects that the debt burden will reduce income growth by 12% over the next three decades, as debt payments crowd out other investments.

The expanding federal deficit is a function of rising expenditures, not faltering revenue. Revenues are projected to total 17.2% of GDP this year ... at or around the 50-year pre-pandemic average. On the other hand, expenditures are expected to be 24.2% of GDP ... considerably more than the 21% pre-pandemic 50-year average.

**America is cruising into an uncharted sea of federal debt, with a public seemingly untroubled by the stark numbers and a government seemingly incapable of turning them around ... Over the centuries and across the globe, nations and empires that blithely piled up debt have, sooner or later, met unhappy ends.**

**Gerald F. Seib – WSJ 6/21/24**

Over the past 50 years, federal outlays exceeded 24% only once, and that was during the "Great Recession" of 2008-2009. Interest on the federal debt is expected to cost \$1.02 trillion next year, exceeding the \$964 billion allocated for defense spending.

**Any great power that spends more on debt service (interest payments on the national debt) than on defense will not stay great for very long. True of Habsburg Spain, true of *ancien regime* France, true of the Ottoman Empire, true of the British Empire, this law is about to be put to the test by the U.S. beginning this very year.**

**Niall Ferguson, Economic Historian – WSJ 6/21/24**

We haven't heard much talk lately about the U.S. inverted yield curve. Remember, an inverted yield curve is when yields on short-term Treasuries exceed rates on longer-term Treasuries. An inverted yield curve has historically forewarned of imminent recession. The month of June marked the 23<sup>rd</sup> consecutive month of our yield curve inversion ... the longest streak on record without recession.

**The rich are feeling confident, but lower-income households are growing cautious. What is becoming hard to miss is that companies that serve wealthier clientele sound much more confident lately. While food makers see shoppers struggling with inflation, cruise lines are booming.**

**Aaron Back – WSJ 6/8/24**

Overall, if you own a home with a low-interest rate mortgage and have stock market investments, you may be feeling somewhat comfortable. If you live paycheck-to-paycheck and carry high-interest credit card debt, you are most likely under considerable financial stress.

**Daniel G. Corrigan, CPA/PFS, CFP®**