CORRIGAN FINANCIAL, INC.

Market Update: December 2024

Although struggling on the approach to the finish line, U.S. stocks had yet another blockbuster year in 2024. Thanks to a solid labor market and declining inflation, domestic stocks returned 24% for the year. In fact, U.S. stocks have had their best two-year performance since 1997 through 1998. Foreign stocks ended the year with more modest single-digit returns.

> **Investors have had a reason to cheer in 2024, as economic growth held up better than expected and equity markets hit 57 new all-time highs. But there are still a few lumps of coal under the tree. Progress on inflation has stalled and consumers continue to feel the sting of higher prices this holiday season.**
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> **If anyone's looking for a new year's resolution, it's a lucrative time to pick up an instrument … as the cost of both "*twelve drummers drumming and eleven pipers piping*" each rose 15.8% year-over-year.**
>
> **J.P. Morgan Asset Management – Market Insights 12/23/24**

Global stocks and global bonds each registered declines of just over 2% in December. Fourth quarter performance was also down, with global stock and bond values falling approximately 1% and 5%, respectively.

> **The Santa Claus rally has been MIA for the stock market … Yes, the cheery fellow seems to have bypassed the market.**
>
> **Paul R. La Monica – Barron's 1/3/25**

Artificial intelligence has been the main driver of performance, with the majority of returns being generated by the so-called "Magnificent Seven"

… Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Nvidia, and Tesla. U.S. growth indices saw returns of over 30%, more than double the returns of their value counterparts. Large stocks, as measured by the benchmark S&P 500 Index, ended the year with returns of 25%, while smaller companies returned about half as much.

> **The powerful rally has left stocks looking increasingly expensive. Some investors argue that the hefty presence of fast-growing tech stocks in today's market justifies a richer multiple than in the past. But many still worry the market looks pricey.**

Karen Langley – WSJ 12/31/24

The S&P 500 is now trading at 22 times projected earnings over the next 12 months. According to FactSet, that is well above the 10-year average of 18.5 times. Many investors expect the market to broaden, particularly in underperforming sectors such as consumer staples and healthcare. Consumer staples and healthcare stocks are currently trading at 18.5 times and 16.5 times earnings, respectively.

> **At some point, investors will likely recognize the big disconnect between fundamentals and valuations.**

Paul R. La Monica – Barron's 1/2/25

Bond investors have seen nothing but negative returns over the past few years. It's hard to imagine, but the U.S. Aggregate Bond Index has an annualized *negative* return (-0.33) over the past five years.

> **Investors can't be blamed for hating bonds right now.**

Amey Stone – Barron's 12/24/24

The benchmark 10-year U.S. Treasury Note ended the year with a yield of 4.57% … well above the 3.62% yield it held just three months ago. (Remember, as yields rise, bond values decline.) While the Federal

Reserve cut rates in mid-December, they also dialed back projections for future cuts.

Basically, the bond market is looking like the proverbial deer caught in the headlights … anticipating rate cuts, but concerned about stubborn inflation, government deficits, and the policies to be pursued by President-elect Donald Trump.

> **Wall Street investors entered each of the past two years brimming with optimism about U.S. Treasuries and other types of high-quality debt. Each time, they were disappointed.**
>
> **Sam Goldfarb – WSJ 12/29/24**

The European Central Bank (ECB) lowered interest rates by a quarter point. Its key interest rate now stands at 3%, after delivering three straight cuts in as many meetings. The ECB also downgraded its forecast for economic growth to 0.7% this year and 1.1% for 2025.

> **The outlook for Europe's economy has darkened again. The risks of recession are rising amid political uncertainty in France and Germany and potential U.S. tariffs on European exports.**
>
> **Tom Fairless – WSJ 12/12/24**

According to the Office for National Statistics, the United Kingdom (U.K.) economy was basically flat between July and September. Growth measures in the preceding quarter were also downgraded. Economists expect more of the same for the final months of 2024.

> **Our hunch is that 2025 will be a better year for the (U.K.) economy than 2024. But more recent data suggest the economy doesn't have much momentum as the year comes to a close.**
>
> **Paul Dales, Capital Economics – WSJ 12/23/24**

After three straight years of losses, the MSCI China index gained 16% in 2024. Recent gains are the result of stronger policy support by Beijing to help stimulate China's struggling economy. Most economic data, however, indicate government efforts to boost the economy have had only a modest impact at best. Bond yields, which have declined to multidecade lows, also suggest weaker growth expectations.

China's economy is *awash in debt*. In addition, China has very high youth unemployment and dreadful demographics … not to mention that the economy may be on the verge of a deflationary spiral. China Dissent Monitor, a platform run by Washington-based Freedom House, has documented a considerable increase in public protests this year … most driven by economic grievances.

> **Some are calling it a "Lost Decade".**
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> **More than 10 years into the Xi Jinping era, it has become clear that much of China's growth under his watch was driven by unsustainable borrowing, real estate speculation and investments in factories and infrastructure the country didn't really need.**
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> **Every time, he (Xi) took the fork in the road that led to more state control, and away from the kinds of changes that many Chinese economists say are necessary.**
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> **Lingling Wei – WSJ 12/23/24**

Many retirees worry that they will outlive their financial resources. Data from a long-running survey of 20,000 seniors determined that most were living well below their means. In fact, researchers refer to the phenomenon as the *retirement consumption puzzle*.

> **Fear is making them miss out. While it is crucial to plan for longevity, it is also important to find pleasure in retirement, when**

many people have the time and money and wisdom to enjoy their lives in a way they never could before.

Meir Statman, Santa Clara University – WSJ 12/29/24

On the other extreme, doctors and counselors are reporting more cases of compulsive gambling in financial markets. Some are turning to Gamblers Anonymous (GA) for help. The Wall Street Journal recently interviewed 30 people who regularly attend GA meetings. They spoke of mood swings, sleepless nights, and depression. The Williamsville Wellness gambling treatment center in Hanover, Virgina has seen a 25% increase in gambling tied to stocks since 2020.

We all know that managing money and personal finances can lead to some very emotional behavior. That is why everyone needs a comprehensive plan. Although good planning will help reassure fearful retirees, compulsive gamblers may need additional support services.

For those concerned about recent market volatility, consider the following sound advice:

There's no free lunch in investing. To get that extra safety, you're going to give up some of the upside. The hard truth … thinking of de-risking your portfolio every time you get nervous demonstrates a lack of investing discipline.

The stock market rewards in rough proportion to perceived risk, so responding to increased risk by pulling back from stocks will usually (but not always) be doing the wrong thing at the wrong time. And since that's true most of the time, if you do it repeatedly, it's almost certain that your long-term returns will suffer.

William Bernstein, Financial Author – Barron's 1/1/25

U.S. stocks are expensive … at nose bleed levels by pretty much all measures. U.S. companies now account for 70% of the leading global stock index, up from 30% in the 1980s. The U.S. economy currently accounts for 27% of global gross domestic product.

Why should investors look to foreign stocks? Afterall, since the Great Recession of 2008/2009 foreign equities have underperformed domestic equities by a wide margin. Still, high valuations generally lead to lower returns in the long run. Foreign markets are currently valued at about 14 times earnings, well below U.S. multiples.

> **Investors are now in a bind: Hold on to something that keeps falling behind, or sell it when it's potentially at a low point? Investing history suggests that stock-market dogs bounce back eventually.**
>
> **Ben Eisen – WSJ 11/28/24**

According to Fidelity Investments, a portfolio with a mix of 70% U.S. stocks and 30% international stocks would have matched the returns of a portfolio of 100% U.S. stocks over the past 72 years. More importantly, the portfolio would have been less volatile. Let's not forget the "lost decade" (2000-2009) for domestic equities, when U.S. growth stocks delivered an *annualized loss of 2.87%* over the 10-year period.

Now that we have made it to 2025, it is time for all the soothsayers to offer their prognostications. Unless you are one of those compulsive financial gamblers, don't waste your time.

Instead, initiate or update your planning framework, make sure your estate documents are in order, and review your investment policy.

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