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## **Market Update: July 2024**

Global stock markets had solid returns in July, with domestic and foreign equities advancing 1.9% and 2.3%, respectively. With traders anticipating lower interest rates, there was a dramatic rotation toward value and small-cap stocks. Smaller companies returned a whopping 10% for the month. Value oriented indexes recorded returns of about 5%, while most growth stock measures recorded modest losses.

***(As you read this, you are probably more concerned about the market volatility during the first few days of August ... more on that later.)***

Domestic stocks values have increased over 15% through the first seven months of the year. Much of that performance has been driven by the Artificial Intelligence (AI) frenzy. That frenzy appears to be waning, with some investors balking at sky-high valuations in the technology sector. In fact, the “Magnificent 7” tech stocks are now down more than 10% from their mid-July peaks.

**It's been a rocky month for the Tech stocks. While no one likes volatility, recent moves have helped right what has been a seriously out-of-whack stock market.**

**Ian Salisbury – Barron's 7/30/24**

Bonds are paying solid yields at a time when interest rates are expected to be on the decline. Investors are apparently taking notice. According to Morningstar, taxable bonds funds took in nearly 90% of monies invested in U.S. mutual funds and exchange-traded funds (ETFs) in the first half of this year.

When the Fed started raising rates in 2022, investors hoarded cash. Now with rates on the decline, investors are looking to lock in bond yields. In addition, they hope to participate in rising bond prices, as declining rates push up valuations.

**We're seeing people move out of cash and into bonds. Cash has been flipping a lot of yield, but now there's a sense that the Fed is going to start lowering rates and that opportunity won't be there anymore.**

**Rick Rieder, BlackRock CIO – WSJ 7/29/24**

Due to high interest rates and the slow return of workers to office buildings, defaults and general distress continue to grow in the commercial-property market. According to data from MSCI, more than \$20 billion of office buildings, apartments, and other commercial property was foreclosed or seized in the second quarter. That represents a 13% increase from the first quarter and the highest quarterly figure in nearly a decade.

**Until recently, though, many lenders have been reluctant to take over properties in hopes of a recovery and to avoid the expense and losses of foreclosure actions. But distress is working its way through the financial system after more lenders conclude that obsolete office buildings won't recover their former value, even when interest rates decline.**

**Peter Grant – WSJ 7/29/24**

Home sales declined in June for the fourth straight month, as the spring home-buying season ended with a whimper. Home prices, however, continued to rise. The national median existing-home price rose to a record \$426,900 in June ... a 4.1% increase from a year earlier.

**The combination of high prices and elevated mortgage rates has made homeownership less attractive to renters and deterred current homeowners from moving.**

**Home-buying affordability fell last fall to the worst level since 1985, according to the National Association of Realtors, and has hovered near multidecade lows since then.**

**Nicole Friedman – WSJ 7/23/24**

The government sector has added 607,000 workers over the past year, nearly one-quarter of all net new jobs. In June, the sector accounted for 34% of payroll gains. Still, the unemployment rate has increased to 4.1% in June, up from the historical low of 3.4% in April 2023.

**If government hiring steps to the side, there is a risk that the unemployment rate could move up more than it already has.**

**Michael Feroli, J.P. Morgan – Barron's 7/19/24**

The recent growth in government employment is attributed to “catch-up hiring” related to the pandemic. According to Fitch ratings, the government has now fully recovered from pandemic-era job losses. In addition, state and local governments are facing budget constraints that will inevitably reduce future hiring.

**Public sector hiring helped fuel the growth of U.S. payrolls in the past few years, but now looks set to slow. Other sectors of the economy are unlikely to compensate for diminished government job growth, suggesting the once-red-hot labor market will continue to cool.**

**Megan Leonhardt – Barron's 7/19/24**

In March 2022, when the Fed started increasing rates, there were 2 job openings for every unemployed worker ... that measure now stands at

1.2 jobs. It's taking more time for workers to find jobs, and wage growth is cooling. According to the Labor Department, private-sector wage and salaries grew only 0.8% in the second quarter.

**Americans aren't as restless in their jobs as they were a couple of years ago. Numerous surveys show that fewer U.S. adults are currently seeking to leave their roles, compared with the job-switching frenzy of the pandemic years.**

**The current mood is a turn from recent years, when a red-hot labor market helped spur a wave of quits among American workers, or the "great resignation." So different is the current mood that some labor economists have dubbed it the "big stay."**

**Ray A. Smith – WSJ 7/9/24**

Inflation in the U.S. eased in June, with consumer prices falling slightly from May. Core prices, which exclude volatile food and energy sectors, rose only 0.1% from a month earlier. The report showed price changes came in below economists' expectations, increasing the probability of interest rate cuts by the Fed.

**The broad sense of the committee is that the economy is moving closer to the point at which it will be appropriate to reduce our policy rate. A reduction in the policy rate could be on the table as soon as the next meeting in September.**

**Jerome Powell, Fed Chair – WSJ 7/31/24**

The Fed's preferred measure of inflation, the personal consumption expenditures inflation gauge, rose 2.5% in June compared to a year earlier. That was slower than the 2.6% pace in May. The core measure, which excludes volatile food and energy costs, rose by 2.6% ... unchanged since May.

Investors now expect the Fed to start reducing rates in September by 25 basis points, or a quarter-percentage point. They also expect additional quarter-point cuts to follow in November and December of this year.

The Commerce Department reported that Gross Domestic Product (GDP) rose at an annual rate of 2.8% during the second quarter. That was decidedly above the 2.1% rate anticipated by economists, and faster than the 1.4% pace during the first quarter of the year.

**The U.S. consumer remains a source of strength in the overall economy. Still, the effects of high inflation and borrowing costs are almost certainly stretching some consumers financially.**

**Richard Fairbank, Capital One Financial Corp – WSJ 7/25/24**

China's economic growth slowed to 4.7% in the second quarter, a decline from the 5.3% rate reported in the first quarter. Pressures from an epic property slump, and the ensuing collapse in consumer confidence, continue to plague the economy. In response, the People's Bank of China said it will cut a key interest rate and pump more than \$25 billion into the banking system.

**Rate cuts help at the margin, but they are not sufficient.**

**Duncan Wrigley, Pantheon Macroeconomics – WSJ 7/25/24**

China's approach to the economy is to provide massive support to preferred industries. That approach, however, has generated problems of overcapacity, rising debt levels, and inefficiencies. Ultimately it has created a *lopsided economic backdrop*, as private consumption remains below 40% of GDP ... among the lowest levels for major economies.

**The problem is that there is no escaping the iron laws of economics. Rather than overcoming flaws in the Chinese political economy, Mr. Xi is exacerbating them. He is deepening the resentment felt in America and other major economies against Chinese predatory and distortive policies.**

**John Lee, Hudson Institute – WSJ 7/24/24**



As I'm writing this update for July, stock markets are in a tailspin to begin the month of August. The following economic data were the main drivers that quickly changed investor sentiment:

- On Thursday, August 1<sup>st</sup>, the Institute of Supply Management released its gauge of July manufacturing activity. The reading fell unexpectedly to 46.6. Readings below 50.0 indicate contraction.
- On Friday, August 2<sup>nd</sup>, the Labor Department reported the economy added 114,000 jobs in July. This was well below the 175,000 expected. In addition, job gains from prior months were adjusted downward.

More surprisingly, the unemployment rate jumped from 4.1% to 4.3%, raising concerns that the labor market is losing momentum at a faster than expected pace.

**The disappointing data has stoked worries that a soft landing might be elusive and the economy could tip into a recession. Now, some investors have started questioning whether the Federal Reserve has waited too long to trim rates, and they are ramping up bets on a bigger rate cut in September.**

**Gunjan Banerji – WSJ 8/2/24**

Global stock markets were off more than 3% over just those two days ... and are now off an additional 3% as of early Monday, August 5<sup>th</sup>.

Interest rates are plummeting. The yield on the benchmark 10-year Treasury Note, which was 4.107% to end July, closed at 3.79% on Friday.

Since bond prices rise as rates decline, bonds values jumped about 1.5% in just the past two days. That is certainly a reminder of how bonds can provide support during times of economic stress.

These times of extreme market volatility are always difficult for investors. No one likes to see their portfolio values on the decline. Still, over the longer term, volatility can be your friend... as long as you remain within the guidelines of your investment policy.

Hang in there, and feel free to call us if we can be of any help.

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