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Market Update: August 2024

August delivered quite the roller-coaster ride for investors. At the start of the month, financial markets were hit hard by declining manufacturing activity and disappointing jobs data. Markets soon rebounded on reports of easing inflation and strong retail sales. When the dust settled, global stocks ended up delivering solid returns of just over 2% for the month.

After a tumultuous start to the month for the market, it seems to have found some smoother sailing. Whether the market can continue is a different story.

Connor Smith – Barron's 8/30/24

Global stock markets are now up 16% year-to-date, with U.S. and international equities delivering returns of about 18% and 11%, respectively. Domestic growth stocks (+20.66%) have decidedly outperformed their value counterparts (+14.71%) year-to-date.

With the Federal Reserve set to deliver a rate cut at their September policy meeting, the yield on the benchmark 10-year U.S. Treasury Note ended August at 3.910%, down from 4.107% at the end of July. With declining rates supplying a nice tailwind, global bonds returned just over 3% for the month ... and 5.2% quarter-to-date.

The time has come for policy to adjust. It seems unlikely that the labor market will be a source of elevated inflationary pressures anytime soon. We do not seek or welcome further cooling in the labor market conditions.

Fed Chair Jerome Powell – Barron's 8/23/24

Securing a soft landing for the economy means that the Fed needs to stay ahead of a weakening labor market. Interestingly, the Labor Department just issued updated government data that suggests employers may have added 818,000 fewer jobs in the 12 months through March. That data, while still preliminary, uses information from state unemployment-tax records that is more comprehensive.

Some analysts have also noted that the revised payroll figures could be misleading because they might not take into account a recent surge in immigration that has powered the job market.

Sam Goldfarb – WSJ 8/21/24

After declining in each of the past four months, U.S. home sales finally saw a modest increase in July. The National Association of Realtors (NAR) reported sales of previously owned homes rose 1.3% in July from the prior month. Sales are now down 2.5% on an annual basis. Homes sold in July were on the market for an average of 24 days, up from 20 days a year earlier.

Home prices remain near record highs, with the national median existing-home price at \$422,600 in July ... an increase of 4.2% over the past 12 months. There were 1.33 million homes for sale or under contract at the end of July. At the current sales pace, that reflects only a four-month supply of homes on the market. That level of supply is considered to be at the low end of a balanced market between buyers and sellers.

Mortgage rates, while down from recent highs, have still doubled since the Fed started raising rates in early 2022. Owning a home was a record 47% more expensive than renting for the twelve months ending in June, according to research by commercial real estate firm CBRE.

In a July WSJ poll, nearly 90% of respondents said owning a home was either essential or important, but only 10% felt it was easy or somewhat easy to achieve.

Key aspects of the American dream seem out of reach in a way that they were not in past generations.

Emerson Sprick, Bipartisan Policy Center – WSJ 8/28/24

China's economy continues to struggle, with the property sector remaining one of the biggest concerns. New-home prices in 70 major cities fell by 5.3% in July compared to a year earlier. New-home sales by value plummeted 25.9% in July from a year earlier.

The property crisis has also strained the finances of China's local governments, as most of their income has historically come from land sales. Proceeds from land sales are down 20% year-to-date.

Cash-strapped and indebted, regional governments are seeking alternative revenue streams to compensate for falling land and tax income. That is a worrying sign that fiscal conditions are deteriorating, analysts say, and bodes ill for China's sputtering economy.

Singapore Editors, Dow Jones – WSJ 9/2/24

Consumers are generally responsible for between 50% to 75% of economic output for most major economies. In China, however, domestic consumption contributes only 40% of economic output.

China currently accounts for 13% of the world's consumption but a whopping 28% of its investment. That level of investment only works if China is taking "market share" away from other countries.

China's growth model is dependent at this point on a more confrontational approach with the rest of the world.

Logan Wright, Rhodium Group – WSJ 8/29/24

Most economists believe China needs to prioritize more domestic consumption to reduce its heavy reliance on manufacturing and construction. China's leader Xi Jinping has pledged to do the exact opposite ... doubling down on its state-led manufacturing model.

This isn't just a problem for China; it's a problem for the whole world. What Chinese companies can't sell to Chinese consumers, they export. The result: an annual trade surplus in goods now of almost \$900 billion ... That surplus effectively requires other countries to run trade deficits.

Countries that once saw China as a customer now see a competitor.

Greg Ip – WSJ 8/29/24

Bangladesh, China and India each sport a youth unemployment rate of 16%, with rates in Indonesia and Malaysia nearly as bad. In fact, about 70% of those lucky enough to be employed in South Asia had "insecure work", which means they were self-employed or in temporary jobs.

Asia's fastest growing economies are hiding a dirty secret: Their youngest workers are battling stubbornly high rates of unemployment.

Jon Emont – WSJ 8/27/24

There is also a growing labor mismatch in Asia. More people are going to college, but white-collar jobs in fields such as technology and finance are hard to come by. In fact, more than 40% of India's college graduates under the age of 25 are unemployed.

Now that you're educated where your dad was not, your mother was not, you don't want to get stuck in a job like your parents. That's the problem that I think political leaders have not understood.

Kunal Sen, UN University World Institute – WSJ 8/27/24



Here's some "food for thought" for anyone looking to time the markets. Imagine if you lost your patience on June 30 of this year and decided to jump on the growth stock bandwagon. You probably wouldn't be very happy now:

Value stocks have actually gained 8% over just the past two months, while growth stocks have been essentially flat. Not to mention that foreign stocks have outperformed domestic stocks so far this quarter. Also, for all you "bond haters", global bonds have actually been the top performing asset class over that same period!

Chasing gains is the best way to end up capturing losses.

Jason Zweig – WSJ 8/23/24

Does anyone still think you can pick the right stocks? The Wall Street Journal's "Heard on the Street" columnists made stock picks that gained 8.6% over a recent period. Not bad, but the S&P 500 gained 21% over that same period.

Is it all an exercise in futility? The contest highlights the difficulty of stock picking ... Getting rich quickly sure beats doing it slowly, but the goal of the series is to be analytical and informative, not to promise readers a ticket to an early retirement.

Spencer Jakab – WSJ 8/8/24

Most investors are aware that stock valuations are getting quite pricey. S&P 500 companies are currently trading at about 21 times their projected earnings over the next 12 months. According to FactSet, that is above the 18 times average over the past ten years.

Wall Street typically springs to life after Labor Day with bankers and investors back from their vacations. This year could be especially lively.

Goldfarb/Uberti/Miao – WSJ 9/1/24

For those of us keeping score, the S&P 500 has experienced a decline of 10% or more once a year on average since the 1930s ... and that hasn't happened yet this year. With geopolitical risks on the rise, a U.S. presidential election on the horizon, and concerns about a weakening labor market, investors should brace for a potentially volatile fall season.

Daniel G. Corrigan, CPA/PFS, CFP®