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Market Update: September 2024

With returns of just over 2%, global stocks delivered yet another strong month for investors. For the quarter, global stocks advanced 6.6% and are up just shy of 19% year-to-date. The benchmark S&P 500 Index is now up a fairly substantial 22% year-to-date ... the best performance for large U.S. equities over the first nine months of a year in over 25 years.

Declining interest rates enabled global bond markets to deliver monthly and quarterly returns comparable to their stock market counterparts. In fact, global bonds slightly outperformed global stocks during the quarter, something we haven't seen for quite some time.

Market leadership changed dramatically, as artificial intelligence took a back seat to most other sectors over the past three months. As such, value stocks trounced growth stocks, small companies beat large companies, and foreign equities outpaced domestic equities.

The third quarter brought a new order to markets. Investors began to look askance at big tech companies' heavy spending on AI. They took heart in a series of tamer inflation readings ... And many, seeing signs of economic strength, grew confident that the central bank had managed to control price pressures without driving the U.S. into recession.

Karen Langley – WSJ 9/30/24

The Federal Reserve voted to lower its federal funds interest rate by 50 basis points (one-half percentage point), the first rate cut since 2020. This so-called "Fed pivot" was long-anticipated to say the least. The benchmark rate now is set at a range between 4.75% and 5%, and expectations are set for more cuts to come at future Fed meetings.

The decision to trim rates by a larger amount than most analysts anticipated until just a few days ago moved the central bank unwaveringly into a new phase of its inflation battle: It is now trying to prevent past rate increases, which last year took borrowing costs to a two-decade high, from further weakening the U.S. labor market.

Nick Timiraos – WSJ 9/18/24

The Bureau of Economic Analysis reported the core personal consumption expenditures price index (PCE) rose 0.1% on a monthly basis in August. The reading was lower than expected, and represents a deceleration from the 0.2% monthly reading in both June and July. Interestingly, the annualized three-month core PCE is now running below the Fed's 2% inflation target.

The Federal Reserve's preferred inflation measure continued to show muted growth in August, providing more evidence that policymakers were on the right track with the recent interest-rate cuts.

Megan Leonhardt – Barron's 9/26/24

Sales of previously owned homes in the U.S. declined again in August, the fifth time sales have fallen in the past six months. According to the National Association of Realtors, sales are down by 4.2% while prices are up 3.1% on an annual basis.

The *tailwind* from declining mortgage rates has not yet been able to offset the *headwinds* of high housing prices and below average inventory levels. It is estimated that the U.S. needs as much as seven million new homes to relieve shortages. Builders, at their current pace, are only completing around 850,000 single-family units annually.

The Atlanta Fed's home affordability index is at or around the lowest levels seen since 2006. Ownership costs are estimated to require nearly 44% of

median household income ... considerably more than the “recommended” 30% affordability yardstick last seen in 2021.

First-time buyers are in a crunch. Starter-home prices would need to fall 32% to a median \$244,000, mortgage rates would need to drop to 3.15%, or incomes would need to rise by nearly 50% to make a house affordable for a typical first-time buyer.

Mishkin/Light – Barron’s 9/13/24

Consumer confidence in China is at historical lows, due to a weak labor market and the collapse of property values. According to Barclays, approximately \$18 trillion of household wealth has been lost in the real estate meltdown ... the equivalent of \$60,000 per household.

The implosion of the housing market has put a drag on the whole economy. Instead of directly providing stimulus to households to boost consumption, Beijing has opted to support the manufacturing sector. That has led to excess capacity in many sectors, which eventually finds its way into overseas markets.

Jacky Wong – WSJ 9/13/24

To combat the economic malaise, China has just announced a broad package of measures to help jolt its struggling economy. To stimulate lending, the People’s Bank of China (PBOC) will cut its benchmark interest rate and lower the reserve requirements for banks. The PBOC will also reduce rates on existing mortgages, lower down payment requirements for second homes, and (effective 11/1/24) finally allow home owners to refinance mortgages.

Economists said that while the blast of support is welcome, it won’t be enough to pull China’s economy out of a low-growth rut marked by falling prices, a festering real-estate crisis and spiraling tensions over trade.

Jason Douglas – WSJ 9/24/24

The PBOC plans to offer the equivalent of \$70 billion in loans to investment funds and brokers to buy Chinese stocks. The intent is to bolster an ailing stock market, which has lost about one-third of its value over the past three years.

The PBOC's actions suggest that the government is finally coming to terms with the grim situation the economy is in.

Eswar Prasad, Cornell University – WSJ 9/24/24

To make matters worse, China is in risk of falling into a *deflationary spiral* ... a period of falling prices and muted growth comparable to Japan's decades-long stagnation. Excluding food and energy, China's consumer prices rose only 0.3% over the twelve months ended August. Also, China's producer-price index, which measures factory-gate prices received by producers, has been falling over the past couple of years.

President Xi Jinping is paralyzed by China's economic mess ... missing the moment, and perhaps badly. A Chinese economic blunder will have vast global implications.

William Pesek – Barron's 9/6/24

The European Union's economy grew by just 0.2% in the second quarter, slightly less than the 0.3% GDP rate previously estimated. The eurozone economy expanded at an annualized rate of just 0.8% ... well short of the 3% annual rate of the U.S. economy. Continued weakness is expected in the third quarter, with the growing risk that Germany could stumble into recession after contracting in the previous quarter.

The European Central Bank (ECB) cut its key interest rate to 3.5% from 3.75%, its second cut in three months. Investors expect up to seven additional quarter-point cuts over the next twelve months. While rate cuts should provide some immediate relief, longer term economic challenges remain.

If Europe cannot become more productive, we will be forced to choose ... We will not be able to finance our social model. We will have to scale back some, if not all, of our ambitions.

Mario Draghi, Former ECB President – WSJ 9/12/24



With the presidential election just weeks away, there are still no material proposals to confront, or even acknowledge, our enormous Federal debt. Remember, we are spending \$7 trillion annually, but only taking in about \$5 trillion at a time when we already have amassed \$35 trillion of total debt. In a related matter, the House and Senate just passed a measure to extend government funding that was set to expire on September 30 to December 20 ... how's that for a Christmas present!

A recent study analyzed the returns of 29,078 publicly listed common stocks (the database held by Center for Research in Security Prices) over the past fifty years. Most of the stocks (51.6%) actually had negative cumulative returns.

In a comparable study published in 2021, **only 86 stocks** (less than one-third of 1% of all domestic stocks) collectively accounted for **more than half** of all wealth creation. The **1,000 top performing stocks** (less than 4% of all domestic stocks) accounted for **all** of the wealth creation. The other 96% of the company's stocks just matched the return of the "riskless" one-year treasury bill.

The studies suggest that future returns will probably be concentrated in just a few companies ... and such concentration implies that active security selection is unlikely to outperform overall market performance.

Investors make mistakes when they take idiosyncratic, uncompensated risks. They do so because they are overconfident in their skills, they overestimate the worth of their information, they

confuse the familiar with the safe, and they have the illusion of being in control.

Larry Swedroe, Author/Economist – Financial Advisor 9/2024

A recent study by Morningstar's Center for Retirement and Policy Studies concludes that 45% of Americans retiring at age 65 are likely to run out of money before the end of their retirement.

The study takes into consideration health care costs, rising nursing home costs, and changing demographics. The risk was determined to be higher for single women than for single men and couples. The study suggests that many incorrectly think they are prepared for retirement. In fact, the biggest retirement mistakes are generally planning related:

- Poor tax planning and execution
- Believing their spending will decrease dramatically
- Inefficient money moves, such as paying off large debts with retirement assets
- Not recognizing “sequence risk”, or withdrawing large sums when the markets are down.
- Not being properly diversified

In the end, the Morningstar study simply documents the importance of fully integrating *tax-affected cash flows* into the planning process.

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