CORRIGAN FINANCIAL, INC.

Market Update: November 2019

U.S. stocks advanced nearly 4% during November, and they head into the final month of 2019 with year-to-date returns in excess of 27 percent. Foreign stocks returned just shy of 1% for the month and have advanced more than 16% over the past 11 months.

Global economic data remains spotty at best, and a trade agreement between the U.S. and China appears unlikely before year-end. Apparently, the global stock markets are not all that concerned.

> **Stop me if you have heard this before. The major stock market indexes rose to records again … against a backdrop of domestic political fights and global geopolitical tensions. It's almost like the equity market resides in a separate universe.**
>
> **Randall W. Forsyth, Barron's 11/18/19**

We all remember last year's market sell-off that saw double-digit declines for equities in the fourth quarter … which included the worst December performance since 1931. With global stocks advancing over 5% over the past two months, the fourth quarter is certainly shaping up to be much better than last year.

> **We continue to believe the market is in good hands moving into the strongest stretch of the calendar.**
>
> **Strategas Research Partners – WSJ 11/27/19**

Value stocks, defined as shares that trade at low market multiples (cheap prices), have lagged behind growth stocks during this decade-long bull market. As a result, value stocks are trading at some of their most attractive prices in years. According to BMO Capital Markets, the *valuation gap* between value and growth stocks hit extreme levels during 2018 and has been expanding ever since.

Large growth-oriented stocks have been the best performing stocks for quite some time, but market leadership may finally be rotating back to value stocks, as the economic outlook appears to have stabilized … at least for now … and sentiment is improving for trade and corporate profits. In fact, over the past three months value stocks have outperformed their growth counterparts.

> **Growth has crushed value over the past five years. But we reached a point where the valuation divergence between growth and value got extraordinarily high.**

Ronald Temple, Lazard Asset Management – WSJ 11/18/19

Small company stocks have also started to outperform larger *blue-chip* stocks. While a few months doesn't necessarily signal a longer-term trend, some analysts believe that this shift towards smaller and value-oriented stocks could persist.

The Fed has *cut interest rates* three times this year, with the most recent cut coming in October. It's difficult to imagine that this time last year the Fed had "penciled in" three *rate hikes* for 2019. That 180 degree pivot by the Fed, along with easy-money policies by many other global central banks, has helped fuel a surge in asset prices.

> **If you believe the current narrative, everything is right with the world. By cutting interest rates three times, the Federal Reserve has averted a recession … But that narrative papers over just how weak the economic data have become. Even worse, investors appear to have thrown caution to the wind as they load up on stocks out of fear of missing out.**

Ben Levisohn – Barron's 11/22/19

Inflation rates have been below 2% for most of the past decade. With more recent inflation measures closer to 1.5%, Fed officials are now signaling their willingness to let inflation exceed 2% before taking any further action.

Historically, commodity prices have been a major driver of inflation. New technologies have made the extraction of oil and gas much more efficient, and U.S. oil production has surged … making it more difficult for the Organization of the Petroleum Exporting Countries to increase prices. Other influences that should continue to keep inflation in check include *aging demographics*, *globalization*, and *technological innovation*.

> **Our forecast is that the Fed's on hold, really, for the foreseeable future.**

Brett Ryan, Deutsche Bank – WSJ 12/1/19

The Commerce Department just reported that third quarter U.S. GDP rose at a 2.1% annualized rate, an increase from the 1.9% initial estimate. Forecasting firm Macroeconomic Advisers is projecting GDP to expand by 1.8% during the fourth quarter. Overall, household spending is strong, but business investment remains weak.

> **The latest reading indicates the economy is not about to fall off a cliff. However, the lingering global industrial slump, persistent trade policy uncertainty, and cooling income growth all point to weaker activity in the coming months.**
>
> **Daco/Boussour, Oxford Economics – WSJ 11/28/19**

Trade concerns have hurt spending on equipment and other capital investment. The Atlanta Fed's monthly survey estimates that $40 billion in investment (about a 3% reduction) was lost in the first half of 2019 due to trade issues. Capital spending on equipment, buildings, vehicles, and computers had been growing at a 4% clip since 2000.

> **The trade uncertainty has been a major drag on U.S. investment.**
>
> **Nicholas Bloom, Stanford University – WSJ 11/24/19**

Conflicting economic data is fueling investor confusion. Sometimes we just need to disregard the daily noise of the marketplace, and focus on what we know.

Yes, this year has been great for investors, but much of the performance is simply a bounce back from 2018's dismal fourth quarter. The additional net gains can be attributed to global monetary stimulus (rate cuts). As a result, stock valuations in the U.S. are now at *nose-bleed* levels, and interest rates are at historical lows.

The economic backdrop is certainly slowing, but the November jobs report (released December 6) was a blockbuster, adding 266,000 jobs, and the 3.5% unemployment rate now matches a 50-year low. So, don't bother trying to anticipate economic swings, but recognize we are late in the cycle. Stay globally diversified … but generally risk averse … and lower your return expectations.

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