CORRIGAN FINANCIAL, INC.

Market Update: November 2020

Stocks soared in November, as impressive news on the vaccine front propelled global markets to double-digit returns. U.S. markets were led by smaller companies, which rocketed more than 18% during the month. Value stocks continued to outperform their growth counterparts, as investors favored businesses that were hardest hit by the pandemic. With the dollar reaching a two-year low against other world currencies, foreign stock returns outpaced domestic markets.

> **The consensus view of a falling dollar is based on a big assumption: Covid-19 will be more or less conquered in the months ahead. Vaccines will allow economies around the world to return to normal within the next year, encouraging investors to step back from the relative safety of U.S. assets and invest in stocks, bonds and currencies outside the U.S.**
>
> **Paul J. Davies – WSJ 11/26/20**

The Dow Jones Industrial Average closed over the 30,000 mark for the first time. Climbing more than 60% from the lows reached in March, the *industrials* have been up or down at least 3% on more days this year than for any stretch since 2008.

Still, the Dow Industrials have returned only about 6% for the year, while the S&P 500 is up 14% and the Nasdaq Composite has had more than a 35% spike. The uneven performance is all about the five largest S&P 500 stocks (Apple, Microsoft, Amazon, Alphabet, and Facebook), which account for almost one-quarter of the index's market capitalization.

It's as if the stock market adopted Bobby McFerrin's "Don't Worry, Be Happy" as its mantra on the way to record highs this past week.

Ben Levisohn – Barron's 11/27/20

The Conference Board, a private research group, recently announced that consumer confidence fell in November … based on survey responses collected in the first two weeks of the month. The report came as the economy continues to recover, but some of the data has been mixed. Growth in retail sales and employment has slowed, and states and local governments have reinstated certain restrictions to reduce the spread of the coronavirus.

Among the big reasons for climbing stock prices is investors' optimism about the strength of the economic recovery in the years ahead.

Harriet Torry – WSJ 11/24/20

The next few months will be challenging, as students come home for the holidays and the flu season advances. Also, certain safety nets could soon lapse, including the moratorium on evictions, the suspension of student-debt payments, and certain business tax breaks.

The optimism is there, I just fear the near-term growth story is going to be very tough for a lot of households and businesses.

James Knightley, ING Financial Markets LLC – WSJ 11/24/20

Markets, however, are forward looking, and investors anticipate conditions will improve sometime in mid to late 2021. The pent-up demand alone could bring on a big economic surge.

This is one of these times where the disconnect between markets and the economy makes sense. If a vaccine is successful, that does create conditions for well above-trend growth next year and the year after.

Joseph Brusuelas, Chief Economist RSM US – WSJ 11/24/20

Once a vaccine is widely available, there could be a surge in spending on travel and other services.

The economy's progress since the sharp, pandemic-induced recession in the spring has made forecasters more confident of a strong recovery once a vaccine enables people to resume their pre-pandemic lives.

David Harrison – WSJ 11/22/20

Weekly U.S. initial jobless claims have stalled at just over 700,000, three times higher than prepandemic levels, but down sharply from the nearly seven million claims in late March. The number of job openings, however, is now approaching prepandemic levels … suggesting optimism for future economic growth.

If you're an employer right now – unlike in March or April when you're like, 'I don't know when this will get better' – the near term is not great, but there really is a light at the end of a tunnel. Even if the news is bad now, if you're planning for the medium term you might still hold out and not radically pull back on hiring.

Guy Berger, LinkedIn Economist – WSJ 11/19/20

For years, structural factors such as aging demographics and technology innovation have been holding down price increases. But all this pent-up demand for services could eventually cause a spike in inflation. The Fed has previously communicated that it would allow inflation to rise modestly above its 2% target. So, even with inflation on the rise, the Fed is likely to keep rates low for the foreseeable future.

According to S&P Dow Jones Indices, of the 42 companies in the S&P 500 index that suspended their dividends earlier in the year, 6 have resumed dividend payments. In addition, several more companies have communicated a timetable to also resume dividend payments.

> **Multinationals are beginning to exhale. The resumption of corporate dividend payments is an encouraging sign that executives believe that the pandemic will soon be behind us.**

Mark Zandi, Moody's Analytics – WSJ 11/22/20

The KBW Nasdaq Bank Index, an index for some of the largest banks, is down over 20% year-to-date. It is on pace to underperform the S&P 500 index by more than any other year on record (going back to 1993).

> **Giant technology companies like Facebook Inc. and Amazon.com Inc., which have benefited from stay-at-home directives, have fueled the market's rise. The lesser performance by banks, viewed as closely tied to the fortunes of consumers and businesses, highlights the disparity between a rallying market and a troubled economy.**

David Benoit – WSJ 11/22/20

U.S. home sales rose for a fifth straight month in October, according to the National Association of Realtors. Sales are now at a 14-year high, after five straight months of increases. The October sales were 26.6% higher than a year earlier. The median existing-home price now stands at $313,000 … 15.5% higher than a year earlier and a record high nominally and adjusted for inflation.

The market activity could cool off next year, economists say, when policies that allow homeowners to temporarily suspend mortgage payments expire. That could prompt more distressed sales. But robust demand is expected to persist, as a large generation of millennials continues to age into their prime homebuying years.

Nicole Friedman – WSJ 11/19/20

A composite index of U.S. business activity, courtesy of data firm IHS Markit, rose in November despite rising coronavirus infections. The data were compiled between November 12 and 20, and recorded strong growth in business activity even as the job-market shows signs of slowing and some states and localities reinstate restrictions.

Expectations about the year ahead have surged to the most optimistic for over six years, reflecting the combination of a postelection lift to confidence and encouraging news that vaccines may allow a return to more normal business conditions in the not too distant future.

Chris Williamson, IHS Markit – WSJ 11/23/20

The composite index for the eurozone fell in November reaching its lowest level since May. New lockdowns initiated in late October hurt the services economy hard … and the service sector represents about 75% of all European business activity.

The U.S. performance contrasts with surveys showing the European economy is set for a fresh contraction in the final quarter of 2020, as lockdowns aimed at containing the coronavirus have led to a sharp decline in activity in the dominant services sector.

Hannon/Omeokwe – WSJ 11/23/20

A sign of the times: China just issued bonds at a negative rate for the first time. The five-year bonds, denominated in euros, were priced to yield minus 0.152 percent. The bonds were attractive to European investors because they were *less negative* than other comparable government debt. (The yield on 5-year German bunds recently traded at minus 0.749 percent.)

Nearly $17 trillion of foreign debt currently trades at negative yields. Moody's estimates that China's public-sector debt (government and state-owned enterprises) will rise to over 185% of GDP in 2020-2021 from 167% in 2019.

It feels a little like the late 1990s, with trading volumes at record highs and technology stocks registering big gains. Then again, the rotation away from technology is well underway, with several airlines, and hotel and entertainment stocks generating big gains over the past month alone.

With interest rates at historical lows and stock values at or near all-time highs, many investors are questioning the viability of time-honored investment strategies, including the classic 60/40 portfolio.

> **Currently, we are advising all our clients to invest as differently as they can from the conventional 60% stock/40% bond mix, just as we were advising them in 1999.**
>
> **Peter Chiappinelli, GMO – WSJ 11/25/20**

While we utilize GMO's strategies, investors should never allocate too much of their resources to one strategy. There are so many schools of thought right now, diversification has never been more warranted.

Downside risk can be fatal to a portfolio that is not properly diversified. We believe that more of an "all weather" approach helps to mitigate volatility and ultimately increases long-term compounded returns. More importantly, proper diversification can help you get a good night's sleep.

I hope you all have a happy and healthy holiday season.

Daniel G. Corrigan, CPA/PFS, CFP®