CORRIGAN FINANCIAL, INC.

Market Update: November 2018

After a rocky start to the fourth quarter, global stock markets stabilized in November. U.S. equities advanced by 2%, while foreign shares returned about 1% for the month. Although domestic stocks remain in positive territory year-to-date, investments in foreign companies have experienced double-digit losses.

> **If there's value in stocks, it's in foreign markets. If the S&P 500 (U.S. stocks) were to fall 25%, it would merely be at its median valuation over the past 30 years … But foreign markets such as those in the MSCI EAFE index could gain 10% just to get back to median valuations.**

Doug Ramsey, Leuthold Group – Barron's 11/30/18

The yield on the 10-year U.S. Treasury note ended the month at 3.013%, down from 3.155% at the end of October. Since bond prices rise as yields fall, the broad domestic bond market returned 60 basis points (0.6%) for the month. Global bond markets remain down over 3% for the year. According to BlackRock Inc., this could be the first time in more than a quarter-century that both stocks and bonds end up in negative territory during a calendar year.

> **It hasn't felt like a bad year, but retrospectively, it's been a pretty miserable year.**

Thomas Poullaouec, T. Rowe Price – WSJ 11/25/18

Weak global demand and oversupply is hurting most commodity prices. U.S. crude oil prices, which dropped below $50 a barrel for the first time in more than a year, plunged by a whopping 22% in November … the biggest one month decline since October 2008. According to the U.S. Energy Information Administration, domestic oil output has increased 21% in just the past 12 months.

Fifty dollars a barrel is considered to be the price floor for U.S. shale producers. High-cost producers in Canada's oil sands can't profit at that price, while low-cost producers in the Middle East have problems supporting their oil-dependent economies. The International Monetary Fund estimates that Saudi Arabia needs oil prices at $85 a barrel just to balance their budget.

It is certainly a rare occurrence when stocks, bonds and commodities are in simultaneous decline. Of the 70 asset classes tracked by Deutsche Bank, 90% posted negative returns through mid-November. The previous high mark was in 1920, when 84% of the 37 asset classes were down. On average, 29% of asset classes finish a calendar year with losses. During 2017, only 1 asset class (the Philippine bond market) ended the year in negative territory.

Global markets are going through a difficult phase, to put it charitably. Excess liquidity is gradually draining out of the financial markets as the Federal Reserve reins in monetary policy, raising interest rates off crisis-era lows.

Daren Fonda – Barron's 11/30/18

While investment assets struggle, the U.S. economy continues on cruise control. The Commerce Department reported last week that U.S. GDP growth came in at 3.5% during the third quarter, and fourth quarter growth is expected to remain at or around the 3% level.

Economists are not predicting a recession over the near-term, but concerns are on the rise. For example, the housing market – the most interest sensitive sector of the U.S. economy – is showing more signs of weakening, domestic auto sales are slowing, and corporate debt markets are under mounting stress. The recent decline in technology shares has also alarmed investors, with Apple Inc. (down 18% in November) posting its worst month in more than a decade.

U.S. corporate profits have grown at a 7% annual rate over the past two decades. Currently, analysts polled by S&P Global Market Intelligence expect S&P 500 companies to grow earnings at 13% a year over the next 3 to 5 years.

By any realistic calculation, it is nearly impossible for that prediction to come true. When hopes run too high, merely less-than-stellar news can be terribly disappointing.

Justin Lahart – WSJ 11/30/18

China's manufacturing sector is struggling as its economy continues to weaken. The Chinese government's efforts to curb high corporate debt and risky lending practices have also been a drag on growth. Investors will be closely monitoring the ongoing trade negotiations between President Trump and Chinese President Xi Jinping, as tariffs and trade conflicts have widespread global growth implications.

Trade and Fed policy remain the key factors driving the financial markets.

Randall W. Forsyth – Barron's 11/30/18

The financial markets are evaluating signs that growth may be slowing as interest rates are on the rise. These concerns are naturally heightened at a time when the world is clearly *awash in debt*. JPMorgan economists now consider the odds of a recession beginning in the next 12 months at around *one in three*.

> **On average, expansions haven't lasted more than a couple of years under conditions like this.**
>
> **Jesse Edgerton, J.P. Morgan Chase & Co. – WSJ 11/20/18**

Everyone is also well aware that the Fed has a history of *taking the punchbowl away just when the party gets going.* In fact, 80% of rate hike cycles dating back to World War II have pushed the U.S. economy into a recession. The Fed is expected to raise rates by another quarter-point in December, but there is growing uncertainty about the pace of rate increases in 2019.

> **The Fed is dropping lighted matches into a leveraged economy every few months. One of these small fires will eventually spread.**
>
> **James Mackintosh – WSJ 11/23/18**

The markets have been uncharacteristically quiet for the past few years, so we really shouldn't be surprised to see some turbulence. If you have an investment policy that is based on a sound financial planning framework, you're good to go. Stay in your seats and fasten your seatbelts. That is really all you can do.

There is never a shortage of predictions by media pundits. Most prove to be wrong, and even the *consensus forecast* never seems to get it quite right. That's why you can't react to the daily noise. That's why market timing doesn't work.

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