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Market Update: October 2021

Global stock markets returned just over 5% in October, with U.S. and foreign equities returning 6.8% and 2.4%, respectively. For U.S. stocks, it was the best monthly performance this year ... and 2021 is shaping up to be quite a year for investors, with domestic stocks now sporting returns of nearly 23% year-to-date.

The resilience in the markets is all the more surprising given the amount of gloomy headlines about rising inflationary pressures, the impact of supply-chain disruptions, and their prospective impact on company profit margins and disposable incomes.

Michael Hewson, CMC Markets – Barron's 11/1/21

The Commerce Department reported the U.S. economy (GDP) grew at a seasonally adjusted annual rate of 2.0% during the third quarter. That represents the slowest pace of the recovery, which began in mid-2020. The Delta variant and supply chain bottlenecks were the two biggest factors weighing on third quarter GDP growth. Also, the influences which propelled growth in previous quarters ... fiscal stimulus, business prospects, and rising vaccinations ... are now starting to diminish.

We had a temporary set of impediments coming from a resurgence of the coronavirus that should ease as we move through the quarters ahead.

Carl Tannenbaum, Northern Trust – WSJ 10/28/21

Growth is expected to pick up in the fourth quarter, with strong consumer spending this holiday season along with increases in business investment.

Shoppers are well-positioned to open their wallets this holiday season because of rising wages and savings amassed from several rounds of federal stimulus.

Sarah Chaney Cambon – WSJ 10/28/21

After three months of declines, consumer confidence increased in October. The rise in confidence was generally attributed to easing concerns over Covid-19. Still, sentiment could be hurt by persistent supply chain bottlenecks ... causing shortages and rising prices into the holiday season.

The proportion of consumers planning to purchase homes, automobiles, and major appliances all increased in October – a sign that consumer spending will continue to support economic growth.

Lynn Franco, Conference Board – WSJ 10/26/21

The 19-nation eurozone saw much faster third quarter growth than the U.S. and China. The eurozone's economy advanced at a seasonally adjusted annualized rate of 9.1% for the quarter ... well above the 2% rate of the U.S. and the estimated 1% growth for China's economy during the same period.

Europe is climbing out of a deeper economic hole and hasn't yet returned to its prepandemic level of output, unlike the larger U.S. and Chinese economies.

Tom Fairless – WSJ 10/29/21

China is attempting to rein in excessive real estate debt (both household and corporate), while at the same time addressing ambitious goals relating to climate concerns and widening inequality. Slower economic growth may be the result, as Beijing tries to implement these

reforms, while dealing with real estate bubbles, power shortages, and continuing concerns over the coronavirus.

The downturn in the real-estate market will continue to weigh substantially on (China's economic) growth in the coming months.

Louis Kuijs, Oxford Economics – WSJ 10/18/21

The Fed's preferred gauge of inflation, the personal-consumption-expenditures price index, rose at a 4.4% annual rate in September ... the fastest rise in 30 years. Excluding the volatile food and energy categories, the index was up 3.6% annualized ... also a 30-year high.

Year-over-year inflation remains high and will for some time simply because of what's already happened in the first months of the year. But monthly rates, I believe, will come down in the second half of the year. I think we'll see a return to levels close to 2 percent.

Janet Yellen, Treasury Secretary – CNBC 10/29/21

Economists expect inflation pressure to remain well into 2022, or at least until we get through all these pandemic related disruptions. The Fed is expected to announce soon that it will start to trim back on its bond buying program. Interest rate increases are not expected until sometime next year.

The Fed now has to navigate that very difficult transition from accommodation to tightening.

Joe Brusuelas, Chief Economist RSM US LLC – WSJ 10/29/21

The Labor Department reported worker compensation rose 1.3% in the third quarter from the second, the quickest pace in 20 years.

Employees in the leisure, hospitality and retail sectors saw the largest increases, as employers continued to struggle with worker shortages.

Approximately 62% of American adults are either working or looking for work ... the lowest rate since the 1970s.

According to a recent household survey by the U.S. Census Bureau, more than seven million adults were impacted because their children were unable to attend daycare due to safety concerns. Experts contend that childcare issues are hurting the labor-force participation rate for women ... which is at the lowest rate since the 1970s. In September alone, it's estimated that more than 300,000 women ages 20 and over dropped out of the workforce.

The pandemic worsened the realities of child care in this country.

**Hannah Matthews, Center for Law and Social Policy –
WSJ 10/24/21**

Energy prices have climbed sharply, due to the surging demand for oil, coal and natural gas from countries rebounding from the pandemic. At the same time, supplies from renewable resources (wind and hydroelectric power) have sometimes fallen short of forecasts.

**The situation has laid bare the fragility of global supplies ...
While fossil fuel investment is falling, fossil fuels account for
the most energy – and green spending isn't growing fast
enough to fill the gap.**

Matthews/Eaton/Faucon – WSJ 10/17/21

Renewables accounted for 26% of global electricity generation in 2019, according to the International Renewable Energy Agency. Fossil fuels account for the majority of global power generation. According to the U.S. Energy Information Administration, the world's oil production, while still rising, is struggling to keep pace with the increasing consumption of countries recovering from the pandemic.

The world isn't investing enough to meet its future energy needs, and uncertainties over policies and demand trajectories create a strong risk of a volatile period ahead for energy markets.

International Energy Agency – WSJ 10/17/21

Existing home sales increased 7% in September, according to the National Association of Realtors. About 23% of home purchases in September were purchased in cash, up from 18% a year earlier. Also, the Mortgage Bankers Association reported that applications for home purchases rose by 8% in September ... an indicator that strong home sales could continue in the coming months.

Until America has more homes available for sale, the housing market will look unusually strong in what used to be the slow part of the year without satisfying pent-up demand that has been years in the making.

Justin Lahart – WSJ 10/21/21



Social Security benefits in 2022 will increase by 5.9% ... the largest payment increase in four decades. About one-half of Americans at or above age 65 rely on Social Security to provide 50% or more of their income. For about one-quarter of seniors, social security payments make up 90% or more of their total income.

Social Security may have a cost-of-living adjustment, but most other income sources that seniors may have – for example, pension income – are not adjusted for inflation. So even if Social Security is keeping up with inflation, it may very well be that other sources of income are not.

David Certner, AARP legislative counsel – WSJ 10/13/21

By some measures, monetary conditions are the easiest on record. Some of that money is being used for speculative purposes, like trading on cryptocurrencies, SPAC's, or meme stocks. Also, Tesla, now the sixth U.S. company to have a valuation at or above \$1 trillion, currently has a valuation higher than the nine largest auto makers ... combined!

Money has never been this easy ... So, enjoy the easy money while it lasts.

Randall W. Forsyth – Barron's 10/24/21

With all the talk surrounding tax hikes, remember that tax policy can have far reaching implications, especially when the alterations impact a \$22 trillion economy. Modifications being debated would increase rates on corporations and the affluent, raise capital gains rates, and/or tax the unrealized gains of billionaires. History suggests the economic fallout will directly or indirectly affect all Americans.

The most lasting effects of government policies are often the unintended consequences.

Palmer/Williams – WSJ 10/25/21

Economic and geopolitical risks are on the rise, but the marketplace doesn't appear to be overly concerned ... perplexing the pundits.

There are more and more reasons accumulating for why it's time to sell stocks. But there's only one reason to buy: The stock market is going up.

Ben Levisohn – Barron's 10/29/21

We're entering the home-stretch for 2021. Let us know if we can help with any year-end planning issues or opportunities.

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