



CORRIGAN FINANCIAL, INC.

Market Update: September 2019

Global stock markets advanced roughly 2% in September, but essentially ended a volatile third quarter at or around where they started. Domestic stocks gained 1.2% for the quarter, while foreign stocks saw a 1.8% decline. With 20% returns year-to-date, U.S. stocks have delivered their best gains in more than two decades. Foreign stocks have advanced over 11% for the year, even against the headwinds of a strengthening dollar.

Bond markets were also extremely volatile. U.S. government bond prices rose for the fourth consecutive quarter, as the yield on the 10-year U.S. Treasury note fell 32.5 basis points to 1.675 percent. The quarterly decline in rates, the most in more than seven years, has propelled the broad U.S. bond market to a remarkable 8.5% return over the past nine months.

It's unusual to have both stocks and bonds rallying ... an occurrence that underscores the uncertainty regarding the direction of the global economy.

As with any situation that feels scary and uncertain, it's wise to focus your energies on what you can control and tune out the rest.

Christine Benz, Morningstar Inc. – WSJ 9/30/19

Investor anxieties have been focused on the continuing trade dispute between the U.S. and China, the direction of monetary policy, and the implications of an *inverted* yield curve. There were also a few new developments, such as the attack on a Saudi Arabian oil installation, a liquidity crisis that caused a spike in overnight lending rates, and a rotation into *value* stocks.

The trade war with China may be cooling off, unless it's suddenly heating up again. The U.S. economy is heading for a recession, unless, of course, it's getting better. The Fed needs to cut rates more aggressively, unless it shouldn't be cutting at all. And it's finally time for value stocks to shine, unless investors just go back to betting on growth. Against this backdrop, we don't want to make any big bets, either.

Ben Levisohn – Barron's 9/20/19

Due to rising tariffs and slower global growth, trade flows are increasing at the slowest pace since the global financial crisis. The World Trade Organization expects trade activity to increase only 1.2% this year, down from 3% during 2018. According to economists from Barclays, Chinese imports from the U.S. are down 28% in

comparison to the prior year, while U.S. imports from China are 12% lower. Those declines have, for the most part, been offset by trading activity with other countries.

The U.S. is viewed as the relatively safe haven from a trade war, as the percentage of our GDP that is export-related is much less than that of most other developed nations.

Larry Swedroe, BAM Alliance – Advisor Perspectives 9/10/19

The economic growth rate for the Eurozone is approximately one percent, or about half the rate of the U.S. Germany, Europe's largest economy, is on the brink of recession. With global growth forecasts on the decline, the European Central Bank has responded by cutting its key interest rate and relaunching its bond buying program.

China's economy isn't tanking, but it is almost certainly weaker than advertised.

Bird/Craymer – WSJ 9/8/19

China continues to *report* solid economic growth. The most recent reported rate of growth (6.2%) is near Beijing's target and within a percentage point of what has been reported for the past few years. Satellite monitoring, energy consumption, and space photos indicate otherwise. Some economists suggest that actual growth rates in China could be as much as 3 percentage points lower.

It's all about the [Chinese] government's tolerance for slower growth and what kind of policy tools they want to use to stimulate growth.

Li Wei, Standard Chartered Bank – WSJ 9/17/19

The Federal Reserve cut interest rates by a quarter-point for the second time in as many months. Fed officials were split on the decision, which is yet another indicator of the pervasive uncertainty that clouds the global economic outlook.

There will come a time, I suspect, when we think we've done enough. But there may also come a time when the economy worsens and we would then have to cut more aggressively. We don't know.

Jerome Powell, Fed Chairman – WSJ 9/18/19

With U.S. interest rates at historical lows, and \$17 trillion of foreign bonds trading at negative interest rates, central banks may be running out of ammunition.

For nine years of intrusive, manipulative and insane QE (quantitative easing) and zero-based interest rate monetary policy, real GDP growth has barely responded. So what is the Fed's answer to today's weakening economic data? It is and will be to lower interest rates again ... These

policies did not work the last time, so to expect a different outcome from similar policies this time would appear to be the definition of insanity.

Robert Rodriguez, formerly of FPA Capital – Advisor Perspectives 9/9/19



By almost any measure, valuations for both stocks and bonds are quite high. Domestic stocks now trade at *30 times* the average inflation adjusted corporate earnings over the past decade ... almost double the long term average of *16 times* adjusted earnings. Developed markets in Europe and Asia-Pacific currently trade at about *19 and 15 times* adjusted earnings, respectively.

No one knows what will happen in the future, but among those who make forecasts, there is an expectation for lower returns.

David Blanchett, Morningstar Inc. – WSJ 9/30/19

Over the long haul, stocks have averaged 7% returns after inflation. Looking ahead, stock investors may have to settle for 3-4% returns net of inflation. With interest rates at historical lows, bond investors would be well advised to anticipate very little return (if at all) net of inflation.

Ultimately, investors have only two choices ... lower their return expectations or take on more risk. Research suggests that low interest rates generally lead investors to take on more risk. When, not if, those risks occur, panicked selling can cause even well-structured plans to fail. Savers closer to retirement age are particularly at risk.

It's the later returns near their retirement date that will have the biggest impact on their wealth accumulations. Either way, the key is to keep market moves in a longer-term perspective. Those who sell when markets fall risk missing out on recoveries.

Wade Pfau, American College of Financial Services – WSJ 9/30/19

We're surrounded by *uncertainty*, and we all know how much Wall Street hates uncertainty. Economics and geopolitics are dominating the discussion, and recession risk is clearly on the rise. We've been in this position a few times over the past 30 years, and our experience overwhelmingly supports the benefits of a coordinated planning and investment process. That's how you stay prepared.

Daniel G. Corrigan, CPA/PFS, CFP®