CORRIGAN FINANCIAL, INC.

Market Update: October 2023

Global stock markets declined 3% during October. It was the third straight month of losses for equity markets, with declines over this period reaching almost double-digit levels. Year-to-date, global stocks remain up by 6.75%, with most of the gains coming from domestic equities. However, foreign stocks have advanced 12.07% over the past twelve months … outpacing the 8.49% return of their U.S. counterparts.

> **This year has posed an unusual array of challenges for investors, and more could be in store. The major stock market indexes are still up in 2023, powered by a narrow slice of technology stocks, but have been losing ground rapidly. Bond yields have risen sharply … The economic outlook is uncertain, the U.S. government has been in turmoil, and wars and conflict are spreading across the globe.**
>
> **Nicholas Jasinski – Barron's 10/27/23**

The Fed has pledged to keep rates higher for longer, and the bond market was apparently listening. The 10-year U.S. Treasury yield ended the month at 4.874%, up from 4.572% at the end of September and 4.090% at the end of August. (Remember, bond prices fall when rates rise.) During October, the 10-year note actually reached the milestone yield of 5% for the first time in 16 years.

> **Rock-bottom interest rates and record money-printing from the Federal Reserve shifted the picture of what successful investing looked like since the 2008 financial crisis. Roughly 15 years of nearly free cash spurred a tech boom, exponential gains by**

venture capitalists, and an investing mania tied to digital tokens and stocks on the brink of bankruptcy.

Now, bonds are back, offering the highest yields since 2007 … In many ways, higher rates mean a shift away from speculative excess and a return to fundamental investing.

Eric Wallerstein – WSJ 10/20/23

With cash yields now at 5% or more, investors have increased their holdings in money-market funds to a near-record $5.6 trillion, according to the Investment Company Institute. While recording a nice "safe" return during difficult times sounds like a good idea, carrying excess cash for long periods can materially undermine portfolio returns.

There's an old expression: you date cash, you don't marry it.

Simon Hamilton, Raymond James – WSJ 10/31/23

The U.S. economy was on a tear during the third quarter, as gross domestic product (GDP) expanded by a 4.9% seasonally adjusted rate. The pace was more than double the GDP growth rate of the second quarter. Personal consumption increased 4% during the quarter, contributing 2.7 percentage points to overall growth.

Americans' prolonged spending spree has confounded economists and resulted in a surging U.S. economy. What's keeping their feet off the brakes? A strong labor market, resilient savings stockpiles and rising values of homes have consumers feeling good and willing to spend.

Wolfe/Omeokwe – WSJ 10/29/23

Economists expect GDP to grow at a more modest pace in the current quarter. Americans' net after-tax and inflation-adjusted income declined by 1% in the third quarter, and their savings (as a share of income) fell to 3.8%, from 5.32% in the second quarter. Also, according to a Bankrate survey, 60% of Americans have fallen behind on emergency savings this year. With credit card balances on the rise and savings stockpiles on the decline, the third quarter spending rate will be very difficult to maintain.

> **You have a mix that does not favor stronger consumer spending, but rather more cautious consumer spending.**
>
> **Gregory Daco, EY-Parthenon – WSJ 10/24/23**

The Fed's preferred inflation measure, the personal-consumption expenditures price index, excluding food and energy, fell to 2.4% during the quarter. That is down from 3.7% in the second quarter, and only modestly above the 2% target set by the Fed.

> **The combination of slowing price increases and a resilient economy has sparked hopes the economy will see a so-called soft landing, where inflation ebbs without a recession.**
>
> **Omeokwe/Guilford – WSJ 10/26/23**

In complete contrast with the U.S., European economies continue to struggle. The European Union's statistics agency reported the GDP of the eurozone's 20 members declined at an annualized rate of 0.4% during the three months through September. The members registered a positive growth rate of 0.6% in the previous quarter.

> **The gap between the U.S. and European economies is widening, with growth and inflation on different trajectories as the fallout from the war in Ukraine weighs on Europe's prospects.**
>
> **Paul Hannon – WSJ 10/31/23**

Just when China's economy looked like it was starting to stabilize, recent surveys show declines in factory orders and construction activity. Manufacturers reported declines in orders from both domestic and overseas customers in October, after recording an expansion in

September after five months of contraction. Activity in China's services and construction sectors also weakened.

> **The readings were a slight shock. This suggests that the economy is still struggling.**
>
> **Robert Carnell, ING – WSJ 10/31/23**

China's economy continues to deal with a deflating property bubble, while local governments struggle under massive levels of debt. The International Monetary Fund (IMF) is now projecting slower growth rates for China's economy along with rising government deficits.

Local governments have borrowed heavily with off balance-sheet financing vehicles. If you include those debts, China's government debt would total 149% of GDP by 2027. The IMF estimates 30% of local government financing vehicles are *nonviable without government support*. More concerning, about 80% of that debt is held by China's banks.

> **True, an imminent meltdown like the global panic that followed the Lehman Brothers' failure in 2008, is highly unlikely. Yet China's fiscal and financial imbalances are so large that they have taken the country – and, because of its size, the world – into uncharted territory.**
>
> **Greg Ip – WSJ 10/19/23**

November 1, 2023 marks the 34th anniversary of Corrigan Financial. Over that time, we have been through four major bull markets, with each starting from the market lows of October 1990, October 2002, March 2009 and March 2020. All four market rebounds were led by rising bank and small company equities.

At the end of September, stocks were up more than 20% from their market lows of October 2022, but banks and small companies underperformed the broad market. Also, half of the gains of the S&P

500 came from just eight stocks … something that usually happens at the end of a bull market, not the start.

> **If this latest bull market peters out, it could turn out to be nothing more than a very large bounce amid the bear market that began at the start of last year … the past year doesn't fit the standard pattern of a new bull market, which ought to give optimists pause for thought.**

James Mackintosh – WSJ 10/20/23

With many investors believing that rates are at or around their peak levels, long-term Treasury bond funds are becoming the next "hot" investment. Long-dated bonds are the most sensitive to interest rate changes. They will appreciate at a faster clip if rates decline, but they will also fall harder if rates increase. For example, the roughly $40 billion BlackRock iShares 20+ Year Treasury Bond ETF has lost more than half its value since its 2020 peak, but investors are now pouring billions into the fund.

> **Rarely in American history has it been this bad for bonds – and rarely has it been such an opportune time to buy. It's time to stop crying about bonds and buy them instead.**

Daren Fonda – Barron's 10/27/23

I'm guessing that most investors currently love cash, are concerned about recent stock declines, and probably hate bonds. Cash yields are great, but the love affair will not last forever. The bond market has been repriced, and investors should definitely take note. Stocks generate higher returns, but volatility can be a challenge.

Remember, most investors should have exposure to all three of these major asset classes. Just make sure you start with a gameplan.

Daniel G. Corrigan, CPA/PFS, CFP®