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Market Update: October 2022

Global stock markets advanced 6% in October, with domestic and foreign equities returning approximately 8% and 3%, respectively. The Dow Jones Industrial Average surged 14% for its best month in over 45 years. Even after October's gains, global stocks remain down by just over 21% year-to-date.

The stock market rallied despite rising yields and falling government-bond prices. The 10-year U.S. Treasury note now yields 4.07%, after jumping 27 basis points (0.27) during the month. The yield has risen for the past three months, adding 1.43 percentage points ... its largest three-month yield gain in 38 years.

Wages and prices continued to rise rapidly in the late summer, keeping the Federal Reserve on track for more interest rate increases as it attempts to cool economic growth and bring down high inflation. The latest figures add to a picture of an economy losing some momentum but still growing as the labor markets, consumer spending and price pressures remain strong.

Gabriel T. Rubin – WSJ 10/28/22

As expected, the Fed just announced another 75-basis point rate hike, lifting the benchmark federal-funds rate to a range between 3.75% and 4% (Wednesday, November 2). During October, investor optimism was fueled by thoughts that the Federal Reserve was considering slowing the pace of monetary tightening.

These days, investors are looking for any excuse the Fed could use to pause its rate hikes.

Alex Eule – Barron's 11/1/22

Looking ahead, investors will be focused on whether the Fed will downshift to a half-percentage point increase in December. Either way, with inflation at an annualized rate of 8.2%, the Fed is expected to continue raising rates well into next year.

U.S. gross domestic product (GDP) grew at an annual rate of 2.6% in the third quarter, after declining in the first half of the year. The declines in the first half of the year were due to more unconventional factors, such as private nonfarm inventories and swings in net exports.

The third quarter actually showed signs of a broad slowdown, as consumer spending and business investment struggled against high inflation and rising interest rates. Trade contributed the most to the third quarter advance, but economists do not expect the rise in exports to continue, given a strong dollar and a weakening global economy.

The overall state of the economy is deteriorating and a lot of it is just the weight of elevated inflation and higher interest rates. I don't think that we've seen the full effects of higher rates work their way through the economy, so that's why we have pretty low expectations for the next several quarters.

Richard F. Moody, Regions Financial Corp. – WSJ 10/27/22

Consumer prices in the European Union surged 10.7% in October from a year earlier, the fastest rate since records began in 1997. The jump surprised economists and emphasized the economic challenges facing policy makers. Most economists expect the EU economy will contract in the fourth quarter, as the cold weather increases energy use.

Without question, the Fed's efforts to curb inflation have directly impacted the housing market. Existing home sales in the U.S. declined by 1.5% in September from the previous month. It was the eighth straight month of declines, the longest streak in 15 years. Existing sales are down by about 25% over the past twelve months.

The housing market has entered a recession before the overall economy does. We look for housing to be a drag on growth, really, for the next several quarters.

Nancy Vanden Houten, Oxford Economics – 10/20/22

Mortgage rates topped 7% in October for the first time in 20 years. As you might expect, new home sales declined by 10.9% in September from August, while sales are down 17.6% from a year earlier. According to the Mortgage Bankers Association, mortgage applications to purchase homes are down 42% from a year earlier.

Sales of newly built homes dropped sharply ... the latest sign that rising interest rates are causing an abrupt slowdown in the housing market.

Nicole Friedman – WSJ 10/26/22

Single-family home starts are down 18.5% from a year earlier, further exacerbating the housing shortage. Rising interest rates and related affordability constraints have caused American home builders to put the brakes on construction.

It is hard to build it when you aren't so sure they will come.

Justin Lahart – WSJ 10/19/22

Apartment rents jumped 25% over the past two years, according to rental website Apartment List. A recent UBS survey suggests that some renters are adding roommates, while others have decided to stay with family or friends rather than pay the record-high rents.

Apartment demand for the third quarter, long considered the prime leasing season, was the lowest since 2009, according to rental software company RealPage. It was the worst drop in any third quarter in more than 30 years.

It's a signal that rent can't continue at the same level it has sustained over the last couple of years. We've reached a point where renters are maybe willing to pull out of the market.

Michael Goldsmith, UBS – WSJ 10/25/22

President Xi Jinping secured a third term as the leader of China's Communist Party. At the age of 69, Mr. Xi received a third five-year term as the party's general secretary ... with no clear successor in sight. This broke with the ten-year leadership cycle set by his predecessor, which was thought to ensure regular leadership succession. The new Politburo Standing Committee, the inner sanctum of power in China, is now made up of Mr. Xi's allies, none of which are considered to be potential successors.

The official line appears to be that China has a leadership that will be united and stable. I suspect it will prove rigid and inflexible.

Mark Williams, Capital Economics – WSJ 10/23/22

In response to Mr. Xi's "coronation", U.S.-listed Chinese stocks fell to their lowest levels in nearly a decade. The selloff followed a big decline in Chinese stocks in Hong Kong and mainland China, with the Hang Seng Index recording its biggest one-day decline since the global financial crisis.

The 20th National Congress of the Chinese Communist Party solidified Xi Jinping's power and confirmed his ideological view of China's future. Beyond that, it revealed little about how China will deal with its faltering economy. Growth is slowing and increasing autocracy will only aggravate long-run problems.

Mickey D. Levy – WSJ 10/26/22

The Fed's aggressive interest rate hikes to fight inflation has also caused operating losses at the central bank. The interest it is paying banks and money market funds to keep money at the Fed now exceeds the income

it earns on its Treasury and mortgage-backed securities. Current losses won't impact the Fed's operations, they will merely result in IOU on the balance sheet.

We've returned close to \$1 trillion to the Treasury over the past 10 years. We did not keep the revenue in the Fed. Now, with the rising rates, the situation is changing.

James Bullard, St. Louis Fed President – WSJ 10/31/22



Credit card debt levels have returned to where they were before the pandemic. Total balances hit \$916 billion ... nearly identical to December 2019 levels, according to Equifax Inc. Balances are 23% higher than their pandemic low in April 2021.

The personal savings rate as a share of disposable personal income fell to 3.3% in the third quarter, a historically low reading and 26% lower than the second quarter of 2020. The trillions of dollars of “rainy-day funds” accumulated during the pandemic are also dwindling.

You have an increasing number of people running out of that excess savings, but it's small. The folks who are the most pressed are starting to turn to debt to supplement their income to maintain their spending.

Mark Zandi, Moody's Analytics – WSJ 10/28/22

Technology companies are especially feeling the pain of high inflation, rising rates, and a strong dollar, as well as the weakness in hardware sales and digital advertising. The tech-heavy Nasdaq Composite index is down just shy of 30% year-to-date ... much worse than the 17.7% decline of the S&P 500.

This really is the first time in 20 years that investors in technology have had their assumptions of effortless outperformance challenged to this degree.

Michael Shaoul, Marketfield Asset Mgmt – Barron’s 11/1/22

We talk a lot about being humble with it comes to the economy and equity markets. Consider a recent example of how arrogance can lead to market losses:

In early June, Jim Cramer, the colorful host of CNBC’s Mad Money, told investors that shares of Meta Platforms Inc. (Facebook’s parent company) had “nowhere to go but up.” Meta shares recently declined 24.6% in just one day (Oct 28), and shares are now down more than 70% year-to-date. At this point, it is the worst performing stock in the entire S&P 500 for 2022.

I made a mistake here. I was wrong. I trusted this management team. That was ill-advised. The hubris here is extraordinary, and I apologize.

Jim Cramer, CNBC - Intelligent Investor 10/28/22

I just returned from an investment conference in Denver. Over 5,000 financial professionals got together for 4 days to discuss all the issues of the day. While there were plenty of strong opinions to be debated, most acknowledge that the best advice is usually centered around an investor’s personal financial situation.

I hope you and your family have a happy and healthy Thanksgiving.

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