CORRIGAN FINANCIAL, INC.

Market Update: November 2023

November proved to be a huge month for investors, as global stocks and bonds registered returns of 9.23% and 5.04%, respectively. All three major U.S. stock indexes increased at least 8% during the month, a welcome rebound from the previous three months of declines. Domestic bonds returned 4.5% for the month … the biggest one-month advance since the mid-1980s.

Market performance was a reflection of investors celebrating the expected end of rate hikes by the Federal Reserve, as well as the greater possibility of rate cuts in 2024. The big question for investors remains: Will rate cuts be a product of a "soft landing" or a declining economy.

> **Is it a "Goldilocks cut", which is strong GDP and disinflation because the Fed has threaded the needle? If that's the case, it's pedal to the metal. Or is it a cut because it is a recessionary cut, which means hitting the breaks.**
>
> **Adam Hetts, Janus Henderson Investors – WSJ 11/30/23**

With technology stocks surging due to the excitement over artificial intelligence, U.S. stocks are now up over 19% year-to-date. Growth stocks, with returns of nearly 35%, have substantially outperformed the more modest 5.4% gains of their value counterparts. The 10 largest companies in the growth index are responsible for approximately 90% of this year's performance.

The path hasn't been smooth, with a regional banking crisis, war in the Middle East and hawkish Fed policy all challenging markets. In short, markets continue to present opportunities for investors either looking to add risk with growth or defensiveness with value.

J.P. Morgan Asset Management – Market Insights 11/27/23

For those of us keeping score, U.S. growth and value indexes have each returned around 8% annualized over the past 36 months. While this might come as a surprise to some investors, it is a great example of why it generally doesn't pay to chase sector returns.

Investors should also be aware that growth stocks now trade at about 32 times trailing earnings … with value at a more reasonable 14 times. In fact, more money has flowed into actively managed value stock funds this year than to similar growth-oriented funds.

This was supposed to be the year value stocks shined. Then AI mania took over and ran away with the spotlight. The outlook for both types of companies is upbeat. It is why some investors are still betting on value, while others expect the promise of growth stocks to keep drawing investors.

Charley Grant – WSJ 11/28/23

The yield on the benchmark 10-year U.S. Treasury ended the month at 4.349%, after falling 52.5 basis points. (A basis point is 1/100 of a percentage point.) Rates declined as inflation measures came in slightly under economists' expectations, and the Treasury had less than expected sales of longer-term securities.

Longer-term bonds bounced back in dramatic fashion. For example, the iShares 20+ Treasury Bond ETF was up 9.92% during the month … yes, that's not a typo. Still, the fund has a negative return of over 5% year-to-date.

> **What a difference a month can make. November was the best, by some measures, for bond prices since the big-hair era of the 1980s, when yields were in their headlong decline from their historic highs reached at the beginning of that decade.**
>
> **Randall W. Forsyth – Barron's 12/1/23**

Job and wage growth slowed in October, most excess savings have been exhausted, credit is more expensive, and student-loan payments have resumed. Not surprisingly, Americans slowed their spending pace in October, as consumer spending rose only 0.2%, down from 0.7% in September.

> **If the Fed wants to be confident they're on the right path in terms of generating the economic environment they need to bring inflation down, they need to see slower growth and that means a consumer downshift.**
>
> **Brett Ryan, Deutsche Banks – WSJ 11/30/23**

According to the Commerce Department, the personal-consumption expenditures price index (the Fed's preferred inflation gauge) was up 3% on a year-over-year basis in October. This is down from the 3.4% reading in September.

> **It was exactly where we wanted it to be. The key thing we have to watch is housing.**
>
> **Austan Goolsbee, Chicago Fed President – WSJ 12/1/23**

Despite a barrage of Fed interest rate hikes, structural issues in the housing market have kept prices elevated. The S&P CoreLogic Case-Shiller National Home Price Index rose 3.9% in September from a year earlier, and measures of affordability remain at record levels.

A home is considered "affordable" when mortgage and other housing payments are around 30% of household income. Currently, the median-priced home is about 50% too costly for the median household. Even if mortgage rates were to decline to 5%, the Atlanta Fed calculates that housing costs would still be nearly 25% beyond affordable.

Speeding up of annual home-price growth reflects much of the pent-up demand that exists in the housing market amid very low inventories. Nevertheless, home prices are feeling the weight of high mortgage rates, which will slow the rate of price growth in the coming months.

Selma Hepp, CoreLogic – WSJ 11/28/23

China's economy continued to struggle in November, as factory orders fell to *contraction levels* for the second straight month, and the services sector declined for the first time this year. Producer prices fell 2.6% in October, marking the 13th straight month of factory level deflation. China's weakness in services is an indication of the overall deterioration of consumer confidence.

> **China's woes add to the headwinds facing the global economy, which is being buffeted by war in Ukraine and the Middle East and a sharp rise in borrowing costs by central banks determined to tame inflation.**

Jason Douglas – WSJ 11/30/23

China's real estate market remains in a protracted decline. Housing prices fell in 70 major cities at an even faster pace in October. China Real Estate Information Corporation estimates that new home sales from the top 100 developers in 2023 will be 15% lower than the prior year.

China probably can't fix its broken housing market without fixing the labor market and consumer confidence. But more exuberant consumers and a stronger labor market depend on a healthier housing sector, too. Until Beijing finds a way to square that circle, expect China's subpar recovery to dribble on.

Nathaniel Taplin – WSJ 11/30/23

Investors and institutions have a record $5.7 trillion stashed in cash-like money-market funds. Some believe this reflects money that was simply shifted from low-yielding bank accounts. Others see it as a bullish sign that this money will eventually find its way into stocks and bonds.

For the first time in a long time, cash is a competitor. But I think as soon as short-term rates start to tick down, you're going to see large flows to other assets.

Ali Dibadj, Janus Henderson Investors – WSJ 11/26/23

In any event, investors should be reevaluating their bond market exposure. Bonds have been effectively repriced, and yields are currently more attractive than they have been in years. But always remember, your investment policy allocations should be consistent with your overall financial planning framework. Incremental financial decisions often times result in suboptimal outcomes.

A portfolio is much more powerful when it is tied to a financial plan.

Kara Murphy, Kestra Investment Mgt – Barron's 11/24/23

This is a good time to rebalance your investment accounts to policy guidelines. For example, many investors could find themselves overweight in the so-called “Magnificent Seven” stocks that have dominated this year’s market performance. If you’re cash-heavy, consider locking in higher yields by moving into longer-term bonds.

So, are we heading for a soft landing or a recession? Don’t waste time worrying about such things. Be humble with regard to economic forecasts and remain disciplined when executing investment decisions.

Daniel G. Corrigan, CPA/PFS, CFP®