CORRIGAN FINANCIAL, INC.

Market Update: First Quarter 2017

Global stocks extended their gains into the first quarter of 2017, with foreign markets leading the charge. The quarter saw a rotation away from companies that initially had strong post-election gains … generally referred to as "The Trump Trade". The big winners were technology shares, as well as foreign and emerging market equities that benefited from the tailwinds of a declining dollar.

For the month of March, foreign stocks gained 2.5%, while U.S. stocks and bonds were flat. The yield on the U.S. 10-year Treasury ended the month at 2.396%, basically unchanged for the month and slightly lower than the 2.446% rate at the beginning of the year. Foreign bonds, also the beneficiaries of a declining dollar, are off to a strong start with gains of 2.81% for the quarter.

> **The basic distinction is between global growth, which was happening anyway and has sped up this year, and the U.S. boom induced by Donald Trump's promised policies. In the aftermath of the election investors bet on American greatness, but the effect has faded.**
>
> **James Mackintosh – WSJ 3/30/17**

Global economic data has been consistently strong, with 84% of all countries reporting expanding manufacturing activity. Corporate profits are on the rise, and consumer confidence has soared. As the ninth year of this bull market begins, stock indexes are at or around record highs and valuations are historically elevated.

> **After all … earth is enjoying a synchronized economic recovery! There's no whiff of imminent recession just yet, interest rates are rising but still benign, and earnings are ticking up anew. Not since the von Trapps cavorted all over the hills have we heard such harmonized song and dance.**
>
> **Kopin Tan – Barron's 4/1/17**

Morgan Stanley economists recently reported that *soft sentiment data* has surged, while hard economic metrics haven't changed all that much. Soft data is generally survey-based (qualitative), and includes such measures as consumer and business confidence. Hard data

(quantitative) includes actual measures of economic activity. Put another way, what people *say or think* about the economy is considerably different than *actual* economic performance.

> **The spread between hard and soft economic data is at a record level. The divergence is stunning.**
>
> **Morgan Stanley – WSJ 3/30/17**

Market volatility has been virtually nonexistent. The average daily percentage change for the Dow Industrials during the quarter was the lowest since 1965. In fact, the Dow moved less than 1/10th of one percent on fifteen separate days. The S&P 500 Index had its calmest quarter since 1967. Investors' expect this trend to continue, as the CBOE Volatility Index (or VIX) posted its second lowest quarterly average ever.

Amid signs of a shift away from a prolonged period of weak growth and low inflation, central banks around the world are starting to move away from ultra-easy money policies. (Remember, low rates make is cheaper to borrow and help push up asset prices.)

The Federal Reserve raised its benchmark interest rate by 0.25% in March. This was the Fed's third quarter-point increase since they began *tightening* in December of 2015. The other major economies of the world may be a bit behind U.S. monetary policy, but they are at least starting to move in the same direction.

> **Reflation is good inflation, it's a proxy for economic growth and it's what the global economy has been waiting for – for over a decade.**
>
> **Douglas Cote, Voya Investment Management – WSJ 3/16/17**

According to the Commerce Department, the Fed's preferred inflation measure (personal-consumption expenditures price index) came in at 2.1% in February. That exceeds the Fed's 2% target for the first time in nearly five years. Not only is that a healthy sign for the overall economy, but it could help pave the way for future interest rate hikes by the Fed.

> **The world is looking more normal. And in a normal world, interest rates need to rise.**
>
> **Greg Ip – WSJ 3/12/2017**

The dollar began the year at a 14-year high, but investors have become somewhat skeptical about the new administration's ability to accomplish tax and fiscal stimulus plans. The WSJ

Dollar Index, which measures the dollar against a market basket of other currencies, declined by nearly 3% during the quarter.

> **Currency markets are becoming a little more realistic about what is going to be accomplished in terms of the agenda. They're growing used to the fact that there's more bark than bite.**
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> **Mazen Issa, TD Securities – WSJ 4/1/17**

Global economic fundamentals are certainly improving. Deflationary concerns are fading, interest rates are at historically low levels, stock prices are at record levels, real estate markets are strong, and the headline unemployment rate suggests the U.S. economy is at *full-employment*.

There are still plenty of worldwide issues to be concerned about. Here are some of the big ones:

- China struggles with slowing economic growth, mounting debt, and capital flight.
- The European Union continues to deal with structural issues, the impact of Brexit, and the pending French presidential election … not to mention mounting debt levels.
- Japan has severe debt issues along with the worst demographic profile of the developed world.
- The U.S. has labor shortages in construction, agriculture, and (skilled) manufacturing … yet labor participation rates for working age males are on the decline. Yes, we have debt issues that need to be addressed, but we are still considered to be "the cleanest shirt in the hamper" in relation to the rest of the world.
- North Korea, Iran, Syria, Russia … enough said.

The world will continue to do battle with **the 3 D's – Demographics, Deficits, and Debt**. The major economies of the world are simply awash in debt, they continue to run budget deficits, and their populations are growing slowly and aging rapidly. Rising debts are bad enough, but debt management will only be exacerbated by aging demographics.

As investors, we know that any one of these big issues could impact the global economy at any time. With stock valuations in the U.S. at *nose-bleed* levels, it's important not to get caught up in the euphoria. The U.S. markets have apparently already priced in strong corporate earnings and future tax cuts. Don't be complacent … take time to reevaluate your market exposure and overall portfolio risk.

Tax season is coming to an end … thank goodness. It's always a grind, but we believe coordinating tax planning and preparation with comprehensive financial planning is essential.

We look forward to working with you to review and update your personal financial plans during the coming months.

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