CORRIGAN FINANCIAL, INC.

Market Update: November 2016

November will certainly be a month to remember. Donald Trump became our president-elect on November 8, and the Dow Industrials crossed 19,000 for the first time on November 22. For the month, U.S. stocks had strong gains of more than 4%, as small company stocks lead the way with double-digit returns. Foreign stocks and global bonds, however, were down by more than 2% and 4%, respectively. When you put it all together, globally diversified investors will probably be disappointed when they review their November account statements.

Most investors will be asking the following 3 questions:

1. **Why have U.S. stocks done so well?** Overall, the president-elect's agenda is focused on overhauling the tax code, rebuilding our country's infrastructure, reducing the burden of government regulation, and addressing the U.S. trade deficit. These policies should benefit U.S. businesses, with smaller companies benefiting disproportionately because they tend to be less reliant on global trade.
2. **What happened to my bond investments?** Investors are also betting that regulatory relief and increased fiscal spending on infrastructure will lead to higher U.S. growth and inflation. As a result, interest rates have spiked. The 10-year U.S. Treasury ended November yielding 2.365%, up from 1.834% at the end of October. *And as we all know, bond prices fall when yields rise.* Municipal bonds were also negatively affected by concerns that their tax-free status would be diminished if income tax rates were lowered.
3. **How come foreign investments are down?** The expectation of faster U.S. economic growth, along with rising interest rates, has strengthened the dollar. For U.S. investors, a strong dollar hurts returns on foreign investments. Emerging markets were hit hard by the stronger dollar, as well as the prospect of slower global trade under a Trump administration.

Other news from the economic front:

- The Commerce Department reported that U.S. GDP advanced at the inflation (and seasonally) adjusted annual rate of 3.2% in the third quarter … the strongest growth in three years.

- The Commerce Department also announced that U.S. corporate earnings increased by 5.2% in the third quarter … the first quarterly increase since 2014 and the strongest growth rate since the fourth quarter of 2012.
- The Organization for Economic Cooperation and Development reported economic growth in developed countries (34 members) grew by 0.6% in the third quarter - compared with 0.3% in the second quarter. (This elevates the prospects for overall global economic growth.)
- U.S. crude oil ended the month up 5.5% after OPEC members agreed to cut oil production.
- Employers added 178,000 jobs in November. Average hourly earnings were up 2.5%, and the unemployment rate declined to 4.6% … the lowest level in 9 years.
- The November jobs report practically guarantees a Fed rate hike in December.

Overall, the U.S economy looks to be in good shape - with stock prices up, home prices increasing, consumer net worth on the rise, low unemployment, and signs of wage growth.

The U.S. is the bright spot in the world right now.

Howard Ungerleider, Dow Chemical CFO – WSJ 11/29/16

The U.S. has added 15 million jobs since the labor market hit bottom in early 2010. While the top-line employment numbers look good, the broader measure of unemployment (which counts part-time workers looking for full-time work) remains at 9.3%. Labor-force participation in November also fell to 62.7% from 62.8% in October. For those between the ages of 25 and 54 (prime working years), labor-force participation fell to 81.4% in November from 81.6% in October.

The labor market is in better shape than at any point in the recovery. But we haven't solved many of the longer-term challenges.

Jed Kolko, Chief Economist, Indeed.com – WSJ 12/2/16

The recovery that began about seven years ago has been long by historical measures, while economic growth over this span, at just barely over 2%, has been very weak by comparison. Mr. Trump believes his policy initiatives will generate 3 – 4% GDP growth, a pace not seen in over a decade.

> **The fact that Trump is a nontraditional politician means the range of outcomes is broad. Yet we see in (stock) prices a high probability of events playing out a certain way.**
>
> **Mike Cloherty, RBC Capital Markets – WSJ 11/17/16**

While tax cuts and infrastructure spending can give the economy a short-term boost, Mr. Trump's target for long-run growth appears to be quite ambitious.

GDP growth is made up of only 2 ingredients - hours worked and productivity. The problem is that these 2 ingredients have significant headwinds, as our population ages and productivity remains stagnant.

> **Achieving consistently stronger GDP growth would require some combination of expanding the workforce and boosting productivity – daunting tasks, especially on the demographic front.**
>
> **Ben Leubsdorf – WSJ 12/4/16**

Although U.S. stocks are having a strong post-election rally, there remains considerable uncertainty surrounding the policies of the new administration. Investors should remain humble … and somewhat cautious, as domestic stock valuations get even more expensive.

I hope you all have a Merry Christmas and a happy and healthy New Year.

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