CORRIGAN FINANCIAL, INC.

Market Update: October 2015

October is generally considered to be a difficult month for stocks, but that premise may need to be revisited as major stock indices posted gains in excess of 8% for the month. In fact, since 1992, there have been only 4 months with higher returns … and 3 of those months were in October.

The market gains in October were attributed to accommodative policies by global central banks. That sounds familiar. By now, we all know that zero-based interest rate policies (and quantitative easing) have helped to prop up equity markets over the past few years. **Recent lackluster economic results have fueled the expectation that such polices will remain in place for the near term.** To put it another way, bad news in the economy has translated into good news for the stock market. Obviously, that is not sustainable over the longer-term.

> **Central banks are easing because global growth is slow. Growth remains slow due to debt, disruption, demographics, regulation, and buffeted by the cyclical event risks of credit, China, and commodities.**
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> **Michael Hartnett, Chief Investment Strategist BOA, CNBC – 11/2/15**

Why do investors expect accommodative central bank policies to continue? Consider the following:

- October started off with a weak September jobs report.
- The Fed, yet again, delayed raising interest rates … although a December rate increase is still possible.
- European Central Bank President, Mario Draghi, reiterated his commitment to expanding stimulus and further cutting interest rates to fight low inflation and slow growth in the Eurozone.
- The People's Bank of China cut interest rates to help boost its decelerating economy.
- The U.S. GDP growth rate came in at a modest 1.5% for the third quarter. While that represents a considerable downshift from the 3.9% GDP growth of the second quarter, the yearly growth rate is at or around 2% … the rate we have come to expect during the past six years of mediocre economic expansion.

Congress passed a budget bill on October 30 to raise the debt ceiling and avoid the risk of default on U.S debt. (The Treasury Department had warned that the previous debt ceiling would be reached by November 3.) The bill also raises spending for

military and domestic programs and increases the federal government's borrowing limit until March of 2017. The budget bill also provides funds for the Social Security disability program and prevents certain premium increases for Medicare Part B.

One of the surprises in the budget bill was the elimination of a key strategy for claiming Social Security benefits. **The budget deal eliminates the "file and suspend" strategy which allows couples to start receiving cash benefits even as they continue to grow future benefits.** This change is effective in six months and only affects future filers.

China announced that it will abandon its one-child policy, and all Chinese couples will now be *allowed* to have two children. China has the world's largest population at 1.37 billion, but the working age population is dramatically shrinking. The one child policy was problematic, leading to abortions and forced sterilizations. The move is considered by many to be *too little too late*. With an aging population and fewer young people, China risks becoming *old* before it becomes a *rich* (developed) economy.

> **The Chinese Communist Party's decision to end its one-child policy is a landmark that ends one of the worst government intrusions on human freedom in world history. But this is no epiphany about individual choice. Chinese leaders are acknowledging, albeit belatedly, that they face a looming demographic crisis from a rapidly aging population.**
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> **Review and Outlook, WSJ – 10/29/15**

It's hard to believe that we are already in November. It seems like summer just ended, and Thanksgiving is just around the corner. With 2015 coming to an end, you may want to consider having us run a tax projection if you have had any big changes, events or transactions. Just a reminder … but it never hurts to review your tax planning strategies before year end.

I know I have been fixated on monetary policy, and in particular, when the Federal Reserve will start raising interest rates. My concerns have really been about uncertainty and the related potential for significant market volatility. **I want all our clients to be prepared for what could be a rough patch.** Still, that is just short-term (tactical) thinking. It should not materially impact your long-term (strategic) investment and financial planning decisions.

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