



CORRIGAN FINANCIAL, INC.

Market Update: May 2024

Global stock markets advanced 4% during May, with domestic and foreign equities gaining approximately 5% and 3%, respectively. Global stock values have now increased 8.9% year-to-date. The Dow Industrials also made a significant breakthrough, closing above the 40,000 level for the first time on May 17th.

The Dow Jones Industrial Average's ascent to a new milestone exemplifies the strength of the U.S. economy across industries.

Miao/Grant – WSJ 5/17/24

U.S. stocks are up over 11% year-to-date, with larger companies (S&P 500: +11.3%) outperforming smaller companies (Russell 2000: +2.68%).

Growth stocks have also decidedly outperformed their *value* counterparts.

According to FactSet, earnings per share for S&P 500 companies have increased just over 5% from a year earlier. Strong profit performance is expected to continue, as analysts are already *pencil-in* a nearly 10% gain for second quarter earnings.

The market is very keyed in on this notion of a soft landing, and most data points we've received have been completely consistent with that. That optimism is reflected in stock and bond prices, and investors will need evidence contradicting those hopes for the rally to lose steam.

Mike Medeiros, Wellington Management – WSJ 5/17/24

Net monies invested in exchange-traded funds reached \$468 billion through April of this year, the highest on record. Seven of the top ten ETFs that have taken in the most monies are stock funds, two track the

price of bitcoin, and only one is a bond fund. Although stocks are trading at relatively expensive valuations, investors appear to be singularly focused on a soft landing for the economy.

The economy is in good shape, labor markets are in good shape, and central banks globally look ready to provide support. That's an attractive backdrop for investing, and it's the primary reason you're seeing an increased appetite for everything.

Michael Arone, State Street Global Advisors – WSJ 5/28/24

U.S. pension funds reported real-estate related losses of 6% for calendar 2023, according to Wilshire Trust. The Canadian Pension Plan Investment Board (CPPIB) recently sold its stake in a San Francisco office tower for \$44 million ... an investment purchased in 2014 for \$219 million. The CPPIB also just sold its stake in a Manhattan property for \$7 million ... an investment purchased in 2012 for \$57 million.

Government pension plans are getting hit by the commercial real-estate meltdown and many fear the bleeding is far from over. Now, two years after rates started rising and four years after Covid-19 hit, the impact of those events is spreading from U.S. banks with trillions of property loans and investments on their books to the retirement savings of teachers and firefighters.

Heather Gillers – WSJ 5/31/24

The yield on the 10-year U.S. Treasury note ended the month at 4.5%, down from the 2024 high of 4.7% reached in late April. With rates on the decline, global bonds gained 1.3% for the month. However, bond returns remain in negative territory for all of 2024.

The Federal Reserve's preferred measure of inflation, the personal consumption expenditures price index, rose 2.7% from a year earlier. The reading was in line with expectations and unchanged from the prior month. Still, inflation readings have been stuck at or around the 3% level

for some time, and the cumulative effects seem to be catching up with consumers.

Stalled inflation this year hasn't derailed the Federal Reserve's plans to eventually cut interest rates. That's because it expects a slowdown in housing costs to eventually drag inflation close to its 2% target. The problem: It has been waiting for that slowdown for 1½ years now, and it still hasn't arrived.

Nick Timiraos – WSJ 5/11/24

High mortgage rates and supply constraints continue to stifle the housing market. Home sales declined again in April, with existing home sales off 1.9% on an annual basis. The national median existing-home price now stands at \$407,600, up 5.7% from a year earlier. Current inventory levels are estimated to cover only 3.5 months of supply, below the four-to-six-month supply generally required to maintain a more balanced market.

During 2023, developers completed 93,000 new single-family homes for rent ... the most in any year. Another 99,000 new rental homes are under construction this year.

Developers are building new houses for rent at an unprecedented rate, aiming to capitalize on the steep home prices and higher mortgage rates that are forcing Americans to keep renting.

Will Parker – WSJ 5/14/24

Even though the U.S. economy continues to grow, it appears to be slowly losing some of its momentum. Personal spending in April rose by 0.2%, below expectations and lower than the 0.7% growth rate in March. Adjusting for inflation, consumption and income levels actually both declined by 0.1% in April. The current savings rate of 3.6% also remains well below the 5.2% average over the past 12 months. According to economists at the San Francisco Fed, consumers have probably already exhausted the surplus savings built up during the pandemic.

In short, signs of a slowdown are becoming hard to ignore. This may not start to influence the calculations of the Fed until it shows up more strongly in the monthly payroll numbers ... But developments in the labor market are famously a lagging indicator, meaning they show up later than other signs when an economic shift occurs. The early signals are already here.

Aaron Back – WSJ 6/1/24

The U.S. is raising tariffs on \$18 billion of goods from China, countering a surge in exports that threatens domestic businesses. Tariffs were significantly increased on aluminum and steel, electric vehicles, and solar cells. The European Union, Brazil, and India are also imposing tariffs to counter the flood of cheap solar panels, electric-vehicle batteries, semiconductors, and other products coming from China.

Rising U.S.-China tensions, the pandemic, and Russia's attack on Ukraine forced a rethinking of globalization. Companies now prioritize resiliency over efficiency in their supply chains. Governments are leaning on industrial policy and trade restrictions to bolster domestic production of critical goods and protect domestic manufacturers.

Reshma Kapadia – Barron's 5/15/24

The U.K. economy returned to growth, advancing 0.6% in the first three months of the year. On an annualized basis, the economy expanded 2.5% in the first quarter ... higher than the U.S. and most other European economies. Overall, the U.K. economy seems to be recovering from the collateral damage caused by Russia's invasion of Ukraine.

China's slowdown and the excess supply of global goods has hurt Germany's export-driven economy. According to FactSet, Germany's GDP is only 0.3% larger than before the pandemic. On the other hand, the

economies of Portugal, Italy and Spain have grown 6.1%, 4.6% and 3.7%, respectively.

This is an impressive turnaround for nations that many investors saw as irredeemable basket-cases ... Remember the “PIGS”, short for Portugal, Italy, Greece, and Spain? The market is loving the sound they make – for now.

Jon Sindreu – WSJ 5/17/24

Japan’s GDP declined 0.5% in the first quarter of 2024, the third straight quarter of poor performance. The weak yen, which recently was trading at a 34-year low against the dollar, has helped fuel exports. But those benefits have been more than offset by the damage inflicted on the purchasing power of consumers.

Japan’s economy is in bad shape. The biggest concern is private consumption, which has contracted for four consecutive quarters.

Stefan Angrick, Moody’s Analytics – WSJ 5/16/24



So, the big question still remains: When will the Fed begin cutting rates? Everyone seems to have an opinion, but no one really knows for sure. The economy has been extremely resilient, the labor market remains solid, and fiscal (deficit) spending continues to be stimulative. Household wealth has also been bolstered by rising stock and housing values.

Think of the Fed’s policy stance as higher for longer than almost anyone anticipated, because the U.S. economy has been stronger for longer than almost anyone imagined.

The U.S. federal budget deficit is on track to hit \$1.5 trillion in the current fiscal year ... that’s a powerful boost to growth that will continue to flow into the economy through the end of the year.

Nicholas Jasinski – Barron’s 5/31/24

Always remember, investors should never rely solely on immediate past performance. Mutual funds that outperform the markets in one period rarely continue to beat their benchmarks going forward. For example, in 2020 only 43% of U.S. stock mutual funds beat their index. Of that group, only 2.5% continued to outperform over the next two years.

A long-term study of U.S. stock returns shows that half of all excess returns came from just 83 companies. Most stocks underperform risk-free investments, which is why diversified portfolios not designed to shoot the lights out are more prudent.

Spencer Jakab – WSJ 5/17/24

We are all aware that there are plenty of economic and geopolitical influences that could significantly impact our investment portfolios. But trying to “time” the markets is a fool’s errand ... so be humble, stay diversified, and stick to the plan.

Thanks for your support, and enjoy the warmer weather!

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