CORRIGAN FINANCIAL, INC.

Market Update: January 2025

Global stock markets had a solid start to 2025, with returns in excess of 3% during January. For the month, domestic and foreign stocks registered gains of 3.2% and 4.0%, respectively. With interest rates relatively stable, global bond markets saw modest gains for the month.

> **Financial markets finished a bumpy month broadly higher, with everything from gold to government bonds to stocks at home and abroad notching gains despite escalating trade disputes, an uncertain path for interest rates and the DeepSeek AI shock.**
>
> **Ryan Dezember – WSJ 1/31/25**

Yes, the big market news in January centered around China's AI upstart DeepSeek, which claimed to have trained a sophisticated AI model for considerably less money than its U.S. competitors. Markets reacted to the potential for lower power use and less demand for chips and data centers. For example, chip maker Nvidia saw its stock decline 11% in January … for a $348.2 billion loss in market value.

> **Anything vaguely related to artificial intelligence was smashed on Monday (January 27) after investors spent the weekend frantically googling DeepSeek-R1, the low-cost Chinese AI model released last week.**
>
> **James Mackintosh – WSJ 1/28/25**

The Labor Department reported the U.S. economy added 256,000 jobs in December, while the unemployment rate declined to 4.1%. The gain blew away the 155,000 jobs expected by economists, and the unemployment rate was better than the 4.2% expected.

The labor market definitely cooled throughout 2024, and the concern was that it was cooling too fast. I don't think that concern is valid anymore.

Blerina Uruci, T. Rowe Price Chief Economist – WSJ 1/10/25

For 2024, the U.S. economy added 2.2 million jobs … more than double the estimates by economists at the beginning of the year. About 75% of hiring took place in just three sectors: healthcare and social assistance, leisure and hospitality, and government. Wage growth continued to moderate, implying that the labor market is not a source of inflationary pressure.

U.S. gross domestic product (GDP), the value of all goods and services produced, grew by 2.5% in 2024 … slower than the 3.2% increase in 2023. During the fourth quarter, GDP rose at a 2.3% annual rate, down from 3.1% in the third quarter, and below the 2.5% rate expected by economists. The Fed projects a GDP growth rate of 2.1% for this year and a rate of 1.8% over the longer run.

The economy is entering an uncertain 2025. Economists tend to believe that the Trump administration's proposals on tariffs and deportations will hurt growth and stoke inflation. Trump advisors have said that plans to cut regulation and boost energy production will offset the effects of higher goods prices.

Harriet Torry – WSJ 1/30/25

The Fed decided not to change the benchmark federal-funds rate, leaving it at the current range of 4.25 – 4.50%. This follows the full percentage point reduction accomplished over its last three meetings of 2024. Market pricing would imply the odds support two quarter-point rate cuts by year end. Remember, last year at this time, the markets were pricing in 1.75 percentage points of rate cuts.

Ready, Set, Wait. The Federal Reserve has entered the new year facing more questions than answers – and interest rates aren't budging until something gives.

With a solid U.S. economic backdrop and labor market, the Federal Open Market Committee is in no hurry. It has the luxury of time to regain confidence that inflation is sustainably trending toward its 2% target, following a stalling of disinflation at the end of 2024.

Nicholas Jasinski – Barron's 1/29/25

The Fed's preferred measure of inflation, the personal consumption expenditures price index, increased 2.6% on a year-over-year basis in December, while the core measure (excluding food and energy) came in at 2.8% … both measures were in line with expectations.

There is still more work to be done to bring inflation closer to our 2 percent goal. I would like to see progress in lowering inflation resume before we make further adjustments to the target range.

Fed Governor Michelle Bowman – CNBC 1/31/25

According to the National Association of Realtors (NAR), U.S. existing-home sales fell 0.7% in 2024 from the prior year to 4.06 million. It was the second straight year that sales of previously owned homes were at the lowest levels since 1995. The results are worse when you consider the U.S. population is now about 25% higher since the mid-1990s.

Even with interest rate cuts by the Federal Reserve, mortgage rates have risen over the past few months. Still, home prices continue to rise due to historically low inventory levels. The median existing-home price in December was $404,400 according to the NAR … down from last June's record high of $426,900, but up 6% since December 2023.

> **How is it that home sales are so low while home prices are so high? Inventory appears to be a big factor driving sales.**
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> **Lawrence Yun, NAR's Chief Economist – WSJ 1/24/25**

According to Zillow's CEO, Jeremy Wacksman, a severe shortage of available homes is the most critical obstacle for potential buyers. Zillow estimates that the U.S. housing market is short about 4.5 million homes.

> **Not to oversimplify, but you really can boil the housing affordability crisis down to an availability crisis. Getting more homes available is going to be ultimately what starts to unstick the housing market.**
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> **Jeremy Wacksman, Zillow CEO – WSJ 1/23/25**

As developers continue to struggle, China's property sector is becoming more state-dominated. The latest casualty is China Vanke, one of the country's largest developers, saved from the brink of default by state intervention. For 2024, Vanke projected a loss of 45 billion yuan – the equivalent of $6.3 billion.

> **More than three years into China's housing crisis, there is still no sign of its ending. As Vanke's troubles illustrate, even the strongest can stumble. In the Chinese economy of 2025, state backing is key to survival.**
>
> **Jacky Wong – WSJ 1/31/25**

According to Morgan Stanley, it would take 24 months to clear out the current housing inventory glut across Chinese cities. In smaller cities, it would take 28 months to sell the unsold apartments.

Surprisingly, or not surprisingly, take your pick … China said its economy expanded by 5% last year, hitting its official growth target. Economists believe the headline numbers contrast with other data points, suggesting an effort to artificially inflate the top-line figures to meet political goals.

These growth figures stretch the bounds of credibility and will do little to build confidence or alter the picture of an economy that is on the ropes.

A better read of the economy is provided by flailing stock markets, continued turmoil in the property sector, a depreciating currency, and capital outflows. These indicators are hardly consistent with an economy hitting the growth target on the nose.

Eswar Prasad, Cornell University and former head of the International Monetary Fund's China division – WSJ 1/16/25

The European Central Bank (ECB) cut interest rates by a quarter point to 2.75% from 3%, widening the gap between benchmark borrowing costs with the Federal Reserve. It was the fifth cut in six meetings, as the ECB attempts to jumpstart an economy that was stagnant over the final three months of 2024, with output declines in France and Germany. The region's unemployment rate increased to 6.3% in December, up from 6.2% in November.

It would be premature at this point in time [to discuss] the point where we have to stop cutting rates.

Christine Lagarde, ECB President – WSJ 1/30/25

For the second year in a row, Germany's economy contracted in 2024. Economic output was down 0.2% last year after declining 0.3% in 2023. According to the federal statistics agency, this is the first two-year contraction since 2003. Since the end of 2019, Germany's economy has been basically flat. The rest of the euro area has grown 5% over this period, while the U.S. economy has expanded 11% according to Goldman Sachs.

The economy shrank in the final three months of 2024 too, and the moribund performance is set to persist. Germany's central

> **bank, the Bundesbank, forecasts 0.2% growth in 2025, while others are even more pessimistic. The Keil Institute for the World Economy expects the economy to stagnate this year.**

Ed Frankl – WSJ 1/15/25

Does anyone still believe you can pick stocks that outperform the markets? Barron's just came out with the results of their picks from last year, and they vastly underperformed their benchmarks. To be fair, only about one-third of the stocks in the S&P 500 beat the index … reducing the odds of picking winners for all investors.

> **There's no sugarcoating it. Last year, Barron's picks underperformed their benchmarks by 7.1 percentage points. You can't win 'em all – but we still can't help but to be disappointed with how Barron's stock picks performed in 2024.**

Jacob Sonenshine, Barron's – 1/24/25

We really shouldn't be surprised by those results. Recent research found that over the past 98 years, most stocks (51.6%) lost money … with a median negative 7% return. However, the average (or mean) return across all stocks during that same period was 22,840%.

Yes, picking winners is very difficult, and that's why a considerable majority of active stock pickers continue to underperform their respective benchmarks.

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