CORRIGAN FINANCIAL, INC.

Market Update: February 2025

Elevated equity valuations and anxiety over U.S. trade policies are fueling market uncertainties. With these and other economic concerns on the rise, global stock measures were off slightly in February. Conversely, bond markets provided positive returns thanks to declining interest rates. Despite all the noise, global stocks and bonds have each produced solid returns year-to-date.

> **Economists worry that rising import costs from tariffs could worsen inflation, while investors are betting that strong corporate earnings growth will help offset the pain from trade policies.**
>
> **Krystal Hur – WSJ 3/2/25**

Stock markets have seen a sharp rotation to start the year … shunning past winners and embracing past losers. For example, growth stocks are down about two percent over the past two months, but value stocks are up nearly five percent. Also, domestic stocks have produced gains of 1.2%, whereas foreign equities have gains of 5.5% year-to-date.

> **Strange times are afoot in the investing world … The U.S. stock market is the big dog of the global stock market, and recently it has taken on Clifford proportions at two-thirds of global market value. That outweighs America's one-quarter of the world's economy and 4% of the world's population, but the U.S. tail has usually wagged the global dog.**
>
> **Spencer Jakab – WSJ 2/24/25**

None of this is to suggest it's time to dump U.S. assets wholesale. But investors who thought that America was the only game in town have gotten a wake-up call. Time to bust out your passports.

Paul R. La Monica – Barron's 2/28/25

According to the Federal Reserve Bank of Atlanta's *"GDPNow"* tracker of incoming data, U.S. gross domestic product is on pace to decline by 1.5% in the first quarter. The negative forecast was attributed to declining consumer spending and weak net exports. It's actually more about a 12% surge in imports during January … attributed to a rush to get ahead of the anticipated sharp tariff hikes.

While the (Atlanta Fed's) tracker is volatile through the quarter and typically becomes more reliable much later in the quarter, it does coincide with some other indicators showing a growth slowdown.

Jeff Cox – CNBC 2/28/25

The Commerce Department reported that personal spending declined by 0.5% in January, adjusted for inflation. Spending declined despite a rise in income during the month. Accordingly, the personal savings rate rose to 4.6% in January, up from the 3.5% December reading. In addition, surveys reported declining consumer confidence and inflation concerns.

A lot has changed since November's election, but not this: The economy is still pretty solid, and people are still really down on it. Expectations can be self-fulfilling. Consumers worried about a recession might spend less. Workers sensitized to inflation might demand higher wages, fueling a wage-price spiral.

Greg Ip – WSJ 2/26/25

The Labor Department reported that prices rose 0.5% during January. That was decidedly higher than the 0.3% increase expected by economists. The 12-month inflation rate is now at 3% through January, higher than the 2.9% rate for all of calendar 2024.

> **Inflation has now been around these rates for some time and clearly isn't coming down decisively anymore.**
>
> **Paul Ashworth, Capital Economics – WSJ 2/12/25**

On the last day of the month, the Commerce Department reported that the 12-month personal consumption expenditures price index declined to 2.6%, down from the 2.9% reading in December. The measure was in line with consensus estimates. Fed officials consider the core measure as being the best indicator of longer-term trends.

The bond market also appears to be pricing in slower economic growth, as the yield on the 3-month Treasury recently moved above the yield on the benchmark 10-year note. With personal spending and consumer confidence on the decline, markets are now anticipating the probability of three rate cuts by the Fed this year.

The ratio of total federal debt held by the public to GDP has grown from 61% in 2010 to 100% this fiscal year. Total interest on the debt now exceeds the entire national defense budget. The Department of Government Efficiency (DOGE) is primarily focused on *nondefense discretionary spending* which amounts to about 16% of the federal budget. It's been estimated that possibly $500 billion could be cut in that area. That would reduce the budget deficit by about 26%, but it would not really have a material impact on the $36 trillion U.S. government debt.

> **Several factors drive deficit spending, including an aging population and rapidly rising medical costs. America can't achieve a sustainable budget without reforming Social Security,**

> **Medicare and other healthcare benefits. Together these accounted for 49% of federal spending last year, and the share is growing over time.**

Baker/Diamond – WSJ 2/24/25

The U.S. government has about 2.4 million civilian employees, excluding the postal service. That is approximately 1.5% of total nonfarm jobs. It's estimated that the upper limit of federal employment could drop by 475,000 jobs … or about 20% of the total, after a review by DOGE.

> **Even 475,000 jobs would be just 0.3% of the U.S.'s 159 million nonfarm jobs, and only 30% of the 1.6 million jobs that economists surveyed by the Wall Street Journal in January expect to be created this year.**

Justin Lahart – WSJ 2/23/25

According to real-estate brokerage Redfin, the supply of homes on the market is up 5% from the previous year, and the average home is now selling for 2% below the listing price. In fact, there may be more homes currently for sale than at any point over the past six years.

On the other hand, prices continue to trend higher. The national median existing-home price in January was $396,900 … up 4.8% from the previous year. With prices still rising, mortgage rates near 7%, and costs for insurance and taxes on the rise, many potential buyers are electing to stay on the sidelines.

As a result, U.S. existing-home sales declined 4.9% in January from the previous month. The typical home sold in January was on the market for about two months. That is the longest period in nearly five years, according to Redfin.

Home buyers have the most leverage over sellers in years. The bidding wars of the past half decade are fading in many parts of the country. Instead, today's buyers say they are finding sellers willing to lower prices or throw in extras to sweeten the deal.

Veronica Dagher – WSJ 2/22/25

We need to remember that all risk assets go through long periods of poor performance. Generally, after periods of strong performance, valuations rise and future expected returns are lower. After periods of poor performance, valuations decline and future expected returns are higher.

Some investors, however, have the tendency to chase performance by buying winners and selling losers … referred to as "recency bias". Over longer time horizons, they basically end up *buying high and selling low*.

Avoiding *recency bias* requires investors to have sufficient patience to maintain discipline, staying the course through periods of poor performance. Such periods are not a reason to avoid a risky asset. Instead, they are a reason to diversify to avoid having all or most of our eggs in the wrong basket.

Larry Swedroe, Financial Author – WealthManagement 2/25/25

Consider the following returns from 2000-2024:

	Annualized % Return	
	2000-2007	**2008-2024**
Domestic Stocks		
Large U.S. (S&P 500)	1.70	10.70
Large U.S. Value	6.80	7.60
Small U.S. (Russell 2000)	6.70	8.00
Small U.S. Value	12.60	7.30
International Stocks		
Intl (MSCI World ex- U.S.)	5.60	2.70
Intl Emerging	13.90	1.80

From 1995 to 1999, the S&P 500 Index gained 28.6% annualized … but it returned a meager 1.7% annualized over the following eight years. Over that eight-year period, strong performance came from smaller value-oriented investments as well as foreign equities.

Over the past 17 years, however, the best performers have been larger domestic growth companies. Investors chasing performance over the past 36 years would probably have had an extremely volatile and gut-wrenching experience.

> **As U.S. equity valuations hover near historical highs, it's a good time for investors to evaluate the sustainability of stock gains and to revisit the fundamental benefits of portfolio diversification.**
>
> **Seidner/Dhawan, PIMCO – Advisor Perspectives 2/21/25**

Looking ahead, no one really knows which asset classes will outperform and which will disappoint. We know the best approach is to stay disciplined and rebalance to policy weightings … trimming back on winners and adding to losers. Maintaining discipline, more times than not, should deliver a less volatile, and hopefully more profitable, investing experience.

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