Cornerstone
ASSET MANAGEMENT GROUP, LLC

Economic Indicators | February 2025 | By Kim W. Suchy & Brett E. Suchy

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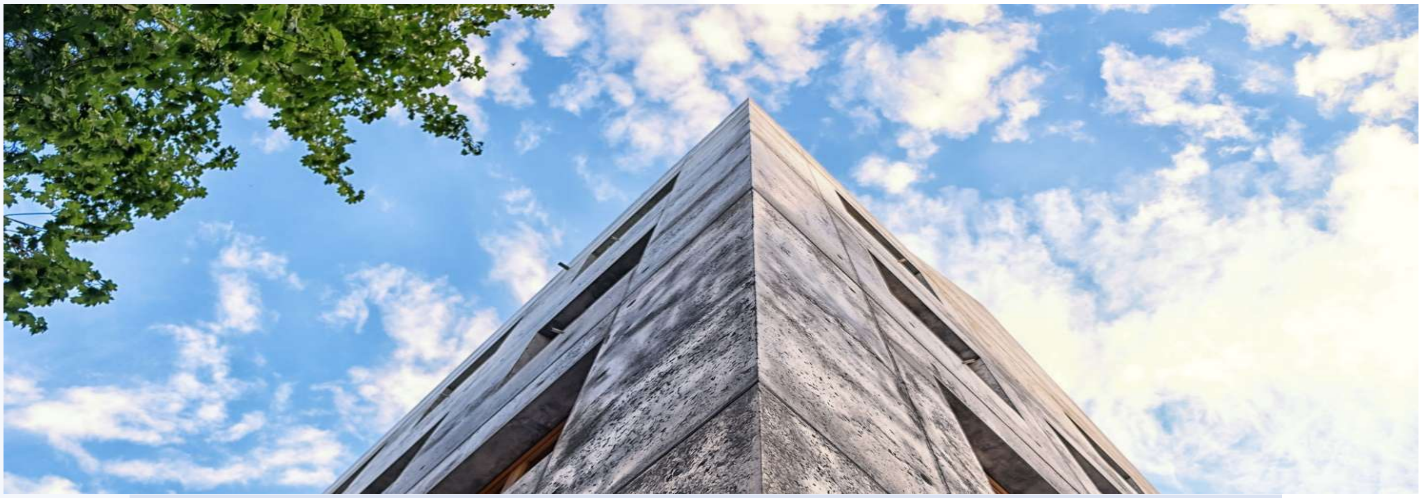


Now that we are entrenched in Trump 2.0, markets are focused on his trade policies, particularly his use of tariffs, as they are at the forefront of economic discussions. While his position on tariffs has always been clear, a tool to negotiate from strength, uncertainty around their scope and timing has created some ripple effects in the global markets. Let's look at the implications of these potential tariffs and how they may impact both the U.S. economy as well as the economies of our trading partners. Note, while Trump advocates, "America First", he and his administration also understand the economics of relative advantage and will be careful not to throw the baby out with the bathwater.

The most immediate wildcard is the potential implementation of tariffs against key trading partners. At the time of this writing, the February 1 (ish) deadline looms regarding the imposition of punitive tariffs on Canada and Mexico if certain demands, such as managing undocumented migration and stopping fentanyl flows, are not met. Both nations are negotiating with the U.S., as the consequences of non-compliance could be economically severe. Both Mexico and Canada have promised retaliation, but the Trump Administration has not balked. However, history suggests we will likely see concessions rather than a prolonged trade dispute.

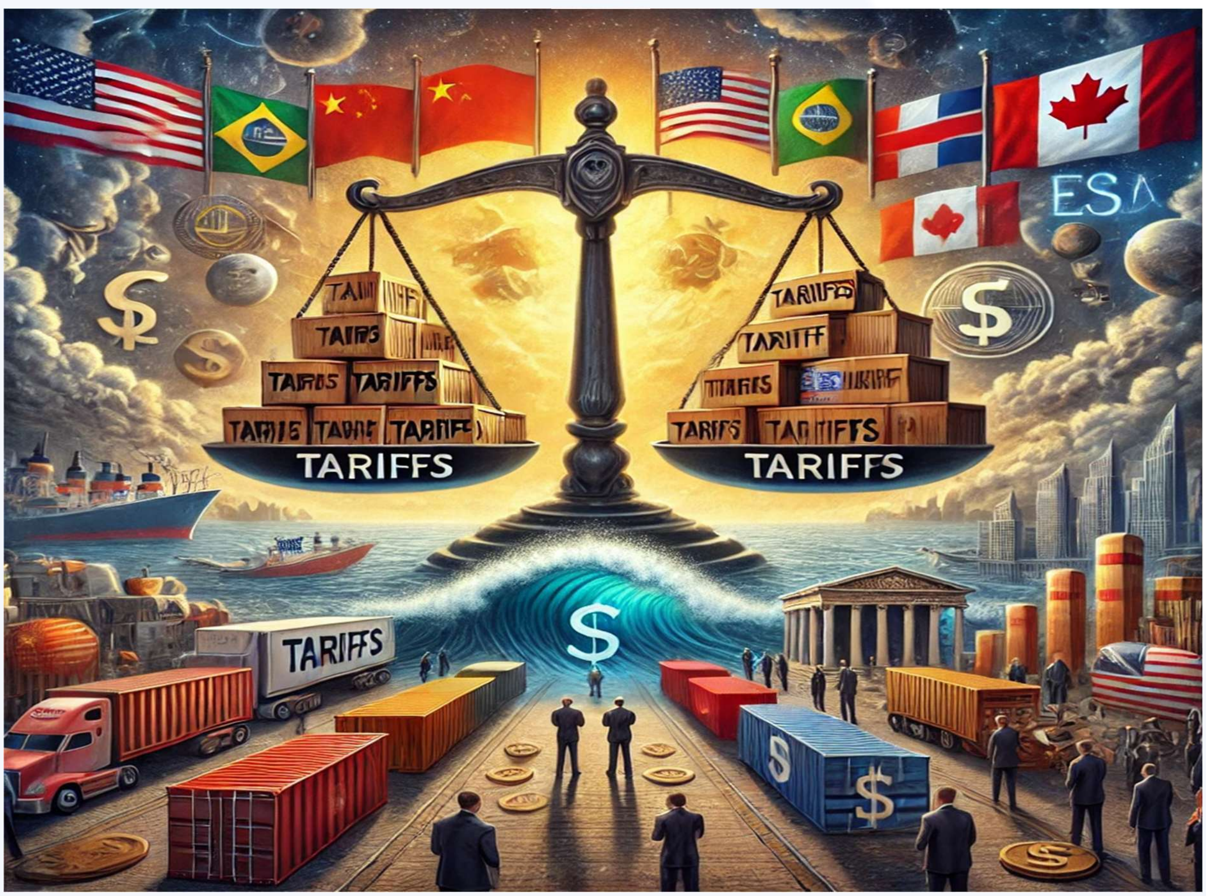
China also remains in the crosshairs as a 10% tariff on all Chinese imports is set to take effect February 1. This tariff has been framed as a measured response to fentanyl shipments linked to China. The 10% tariff is less severe than the 25-100% tariffs previously threatened. Interestingly, the strong U.S. Dollar is expected to mitigate inflationary effects of these tariffs, offering relief to American consumers. Note, the Dollar has appreciated over 15% in the last 3 years vis-à-vis the Chinese Yuan, so a 10% tariff is likely NOT to be inflationary.

Europe, too, is wrestling with the Trump Administration's tariff threats. With the eurozone now in recession, European leaders need to avoid additional trade friction, especially as Trump pushes for more U.S. energy exports and encourages manufacturers to relocate operations to the U.S. Reports from the recent Davos Global Conference suggest that global government and corporate leaders are increasingly aligning with the Trump's vision, which provides some leverage in the U.S.'s negotiating position.

From a market perspective, tariff uncertainty has already influenced currency movements. The British pound, Canadian dollar, Mexican peso, and euro have all weakened relative to the U.S. dollar, as investors weigh the likelihood and consequences of new trade measures. These relative movements have helped to reduce the potential inflationary bite out of the tariffs. Further, while tariffs are often viewed as a tax on consumption, the U.S. sees them as a tool to correct trade imbalances, promote domestic production and create U.S. jobs. Supply chains, thanks in part to Covid, are more resilient today and are better equipped to adapt to these disruptions. If implemented strategically, tariffs could boost U.S. manufacturing capacity over the long term, providing disinflationary benefits and greater economic independence.

As always, we are focused on monitoring these developments and assessing their potential impact on your investments. While trade policies may introduce short-term volatility, they also create opportunities for thoughtful, value-driven investments. If you have questions about how these changes might affect your portfolio, please don't hesitate to reach out.

Here is your look at developments in the global marketplace.



POSITIVE DEVELOPMENTS

- Uranium demand is building at a healthy pace. Goldman Sachs Research reports that rising power demand from data centers is driving renewed interest in nuclear energy, with big tech companies securing over 10 GW of potential new capacity in the past year. However, with electricity usage by data centers expected to more than double by 2030, significantly more capacity—up to 90 GW—will be required to meet future demand.
    - The recently announced “Stargate Project”, led by OpenAI and SoftBank and unveiled at a press conference by Trump, will see up to $500B pumped into Ai infrastructure across the states over the next 4 years. Meanwhile, Amazon and Microsoft have recently revealed separate multi-billion-dollar plans to build data centers in the US and around the world.

- Entrepreneurs are optimistic about AI. Nearly 60% of respondents in a survey of US small business owners (10,000 Small Businesses Voices) said they think AI will save their companies time, and 39% said it would save them money. By contrast, only 13% said the technology would disrupt their value proposition relative to competitors, while 17% said it would eliminate jobs.

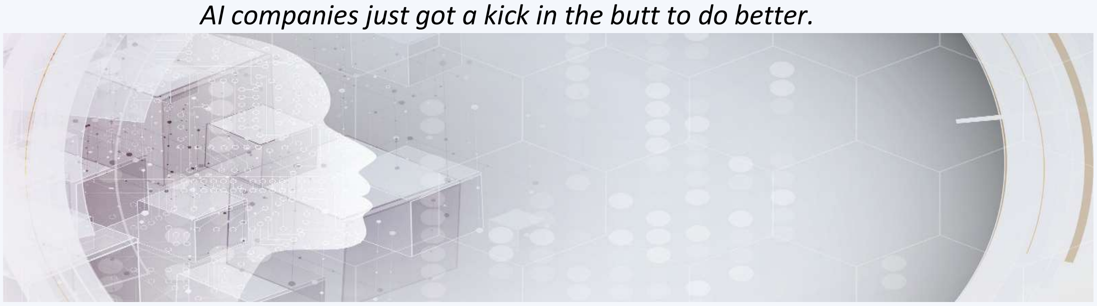
- Retail sales ended 2024 on an up note, climbing the final 4 mos. of the year. Headline retail sales increased 0.4% in December and November’s gain was revised upward from 0.6% to 0.8%. Sales were up 3.9% y/y.

- Industrial production surprised on the upside in December, boosted by the end of the Boeing strike. Headline production rose a larger-than-expected 0.9% last month accelerating sharply from November’s 0.2% increase.

- Housing starts soared in December on a surge in multi-family starts, though single-family starts also moved higher. Total housing starts jumped 15.8% to 1.50M units, well above market expectations of 1.32M, hitting the highest number of starts since February 2024. Multi-family starts skyrocketed 58.9% to 418K in December, while single-family starts rose 3.3% to 1.05M.

- The Wall Street Journal’s survey of economists raised their 2025 U.S. GDP forecasts to well over a 3% annual rate in their latest survey.

- The DeepSeek news caused major selling in the AI space and exposed the dangers of concentration risk. NVIDIA (NVDA) saw its market cap plunge by nearly $600B, earning it the distinction of suffering the largest, single-day loss in market capitalization ever! While NVIDIA belongs in portfolios, it also highlights the importance of diversification in portfolios.
    - Mark Zuckerberg has 4 war rooms going at Meta HQ to figure out DeepSeek’s secrets. Two teams are focused on training and operating costs; the other two are digging into how the data might level up Meta’s next Llama model. *Think about this: All the U.S. based AI companies just got a kick in the butt to do better.*



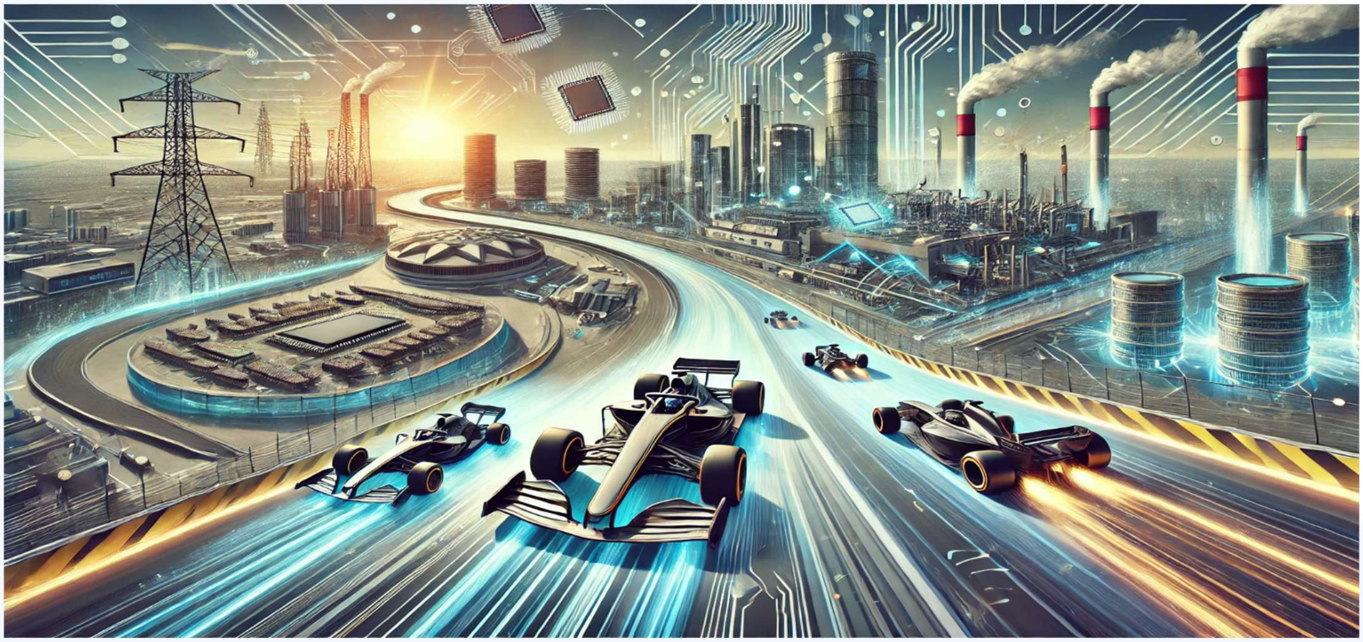
NEUTRAL DEVELOPMENTS

- The Feds policy stance remains restrictive, *implying* the need for additional interest rate cuts. However, this perspective appears at odds with the strength in both stock and housing markets. Over the 12 mos. ending in November, the median existing home price has risen by 4.1%, and since the onset of the pandemic in March 2020, it has surged 47.3%. Similarly, the SP500's market capitalization increased by 24.4% over the past year through December and has climbed 168.5% since the market bottom on March 23, 2020.

- If Trump's orders succeed, the U.S. could see an oil surplus, potentially lowering prices and hurting oil company stocks. Conversely, his policies might spur new projects, benefiting companies that provide equipment and services. This dynamic is reflected in the market, with oil exploration stocks rising modestly by 8.5% since Sept. 10, while storage and transportation stocks surged 35.2%, and equipment and services gained 18.2%. *Source: Yardeni Economics*

- Despite hitting a 30-yr. low for the year, existing home sales ended 2024 on a strong note, with a 9.3% increase over the past year—the fastest 12-mo. gain since 2021. However, December's 4.24M annualized sales pace remains significantly below the pre-COVID average of 5.25M and the COVID-era peak of 6.5M.

- It is unlikely that DeepSeek's recent explosion on the world stage has significantly disrupted the AI landscape. A broader range of lower-cost AI solutions will likely develop and could enable smaller companies within the S&P 493 (the S&P 500 excluding the Magnificent 7) to adopt and integrate AI more effectively. Further, increased competition in data processing, semiconductors, and data centers may drive down costs, potentially leading to faster than expected profit margin improvements for these companies.
    - Even if DeepSeek recent developments prove exaggerated (i.e. low cost and capabilities), it will still serve as a wakeup call for U.S. AI developers that there is competition out there and the benefits are enormous and will allow smaller and mid-sized companies cheaper access, enhance productivity and improve profit margins.

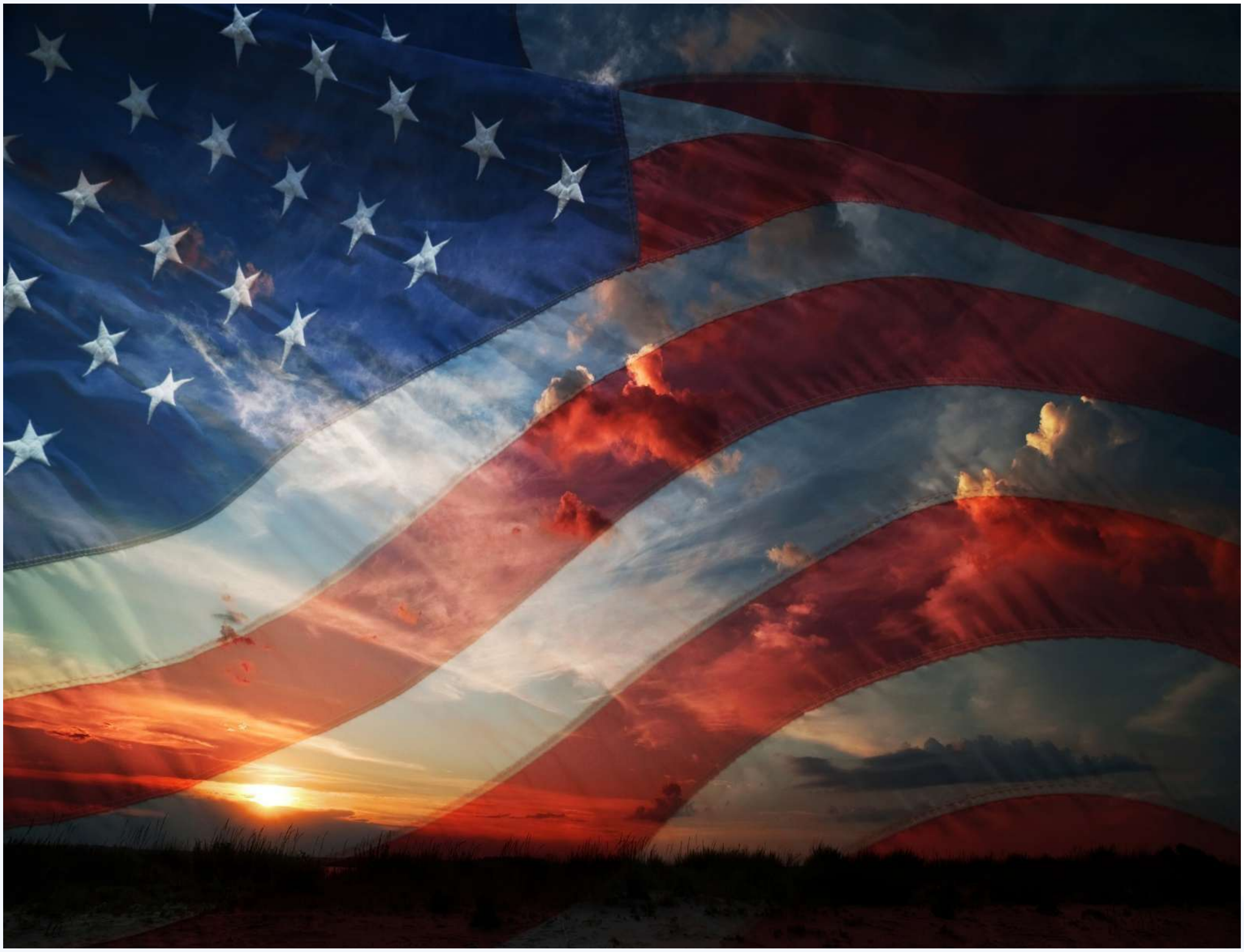


NEGATIVE DEVELOPMENTS

- Consumer sentiment weakened for the first time in 6 mos. in January, on concerns about the labor market and higher prices. For perspective, the consumer sentiment index dropped to 71.1 in January after climbing from 66.4 in July to an eight-month high of 74.0 in December.

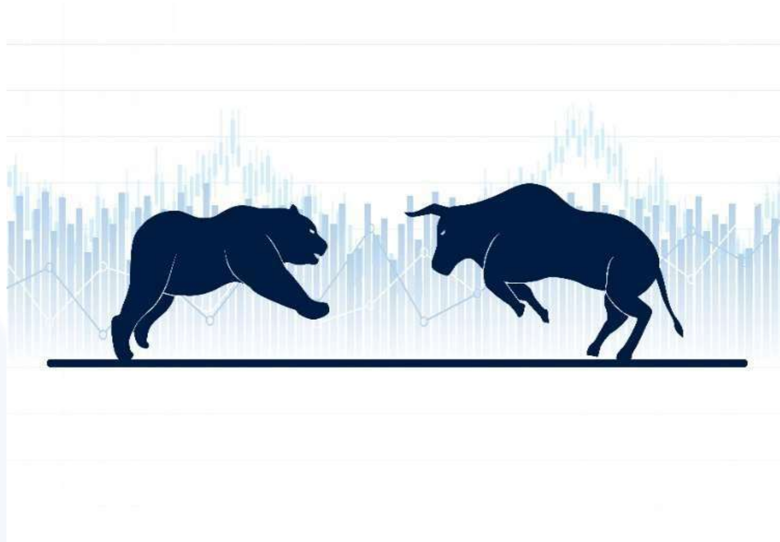
- Trump tax cut options appear limited. Trump has less wiggle room on corporate tax rates than during his 1st term. The US corporate tax rate is in line with those of most industrialized nations, but the massive fiscal spending of the past 4 yrs. limits Trump's tax-cut options. According to the Tax Foundation, further reductions in the corporate tax rate would swell the federal budget deficit without doing much to improve economic or employment growth.
    - *The Trump promise to lower corporate tax rates to 15%, depend on congressional approval—and that approval doesn't seem like a sure thing, given the deficit hawks in the Republican party and disagreements over strategy. If lower taxes don't materialize, the market may be very disappointed.*

- US Durable Goods Orders fell in Dec. dropping 2.2% vs. +0.65% expected. Worse still, November's 1.2% monthly decline was revised down to a 2.0% decline.



THE MARKETS

We finished 2024 with inflation still above the Fed's target of 2%. The Fed must be careful with any rate cuts and we look for the Fed to hold the line against cuts through at least the Spring unless the economy takes a sudden turn for the worse. In January, the 10-year Treasury fell from 4.57% to 4.53%. The 10-2 Year spread rose from 22bps to 32bps giving an indication that recessionary odds are softening.



The U.S. stock market, while choppy, provided some solid returns as seen in the adjacent table. Communications, energy and financials were solid performers while tech, consumer staples and consumer discretionary were laggards. This gives us an indication that there is some market performance broadening which holds diversified investors in good stead.

U.S Index	Last Month (% return)	1-Yr
S&P 500	1.65%	21.82%
Dow Jones	4.42%	15.24%
NASDAQ Comp	0.03%	25.58%
Russell 2000	0.85%	16.56%

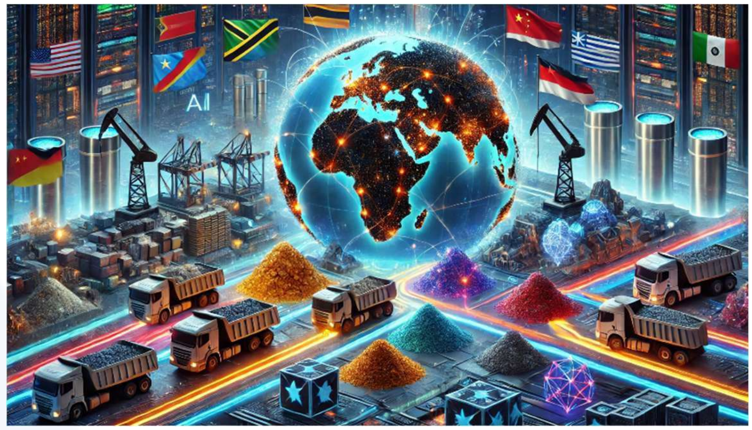
Source: https://tradingeconomics.com/stocks

Across the pond, Asian markets were generally lower with Hong Kong the only market closing the month on a positive note. The European markets were broadly higher with Germany and France logging returns of 9.4% and 8.1% respectively in January.

Global Resource Grab: Nationalization, Supply Chains, and the Future of Critical Commodities

By: Brett Suchy

The Great Commodities Race



For decades, globalization allowed countries to get raw materials from wherever they were the cheapest. Now, the tide is turning fast. As nations look to secure their own supply of essential materials (i.e. copper, lithium, cobalt, and rare earth elements (REE's), it seems the world is entering an era of nationalization, hoarding, and strategic control over resources that will define the next century.

So, why is this shift occurring?

1. Geopolitical tensions: the US-China rivalry, sanctions on Russia, and conflicts in resource-rich regions like the Congo are pushing governments to secure any domestic or allied sources of commodity.
2. Supply Chains: COVID certainly taught the globe a lesson on how fragile supply chains really are. But, beyond a COVID like event, there are ongoing trade wars, and logistical bottlenecks that frequently showcase the fragility of supply chains, especially for critical materials.
3. Clean energy & AI boom: Demand for copper (think power grids), lithium for EV batteries, and rare earth elements for semiconductors are now the backbone of modern infrastructure. Any disruption in their supply has immediate economic consequences.

Congo and the Global Fight for Cobalt

The Democratic Republic of Congo (DRC) holds about 70% of the world's cobalt supply, an essential mineral for lithium-ion batteries. Thus, it's a *cornerstone* in the race in renewable energy and electrification. Yet, the nation's extensive mineral wealth has also seeded political instability, violent resource-driven conflicts, and human rights abuses, particularly in small mining groups. Much like the conflict diamond trade depicted in the movie "Blood Diamond", where Leo's character witnessed how the relentless pursuit of (in this case) diamonds fueled cycles of disturbing violence, exploitation and suffering, the cobalt sector in the DRC has been fueling much of the same fighting and suffering depicted in the movie.

Today, China dominates cobalt refining, and despite Western efforts to secure more ethical supply chains, its entrenched position is unchallenged. So, this dynamic, coupled with the volatile backdrop in the region, threatens to disrupt supply and drive prices higher, and ultimately impact the production of lithium-ion batteries and renewable energy systems worldwide.

Nationalization and Resource Protectionism

In recent years, there have been many governmental efforts to protect resources.

- **Mexico and Lithium** – In 2022, Mexico nationalized its lithium reserves, preventing foreign firms from direct extraction. This was in response to electric vehicle and battery storage markets surging.

- **Indonesia and Nickel** – Indonesia (top nickel producer), banned raw exports to force domestic processing in 2020. This was to capture the benefits of nickel production (another necessity in battery production and renewable storage).

- **China and Rare-Earth Elements** – With 85% of the world's refining capacity, China has restricted exports of REE's, tightening control over global AI and semiconductor supply chains. This is a rather ongoing policy tool that China has, and a good one, considering the global reliance on high-tech components integral to AI, semis, and renewable energy systems.

- **US and Domestic Sourcing** – Through the Inflation Reduction Act passed in 2022, the US has been aggressively investing in domestic mining and refining, aiming to reduce the dependence on foreign sources.

Investment and Market Impact

For investors, this resource grab means several things:

Price volatility: As nations work to secure strategic materials, prices have become sensitive to geopolitical events and policy shifts. In addition, conflicts such as those in DRC can trigger rapid market corrections.

The Rise of Government-Backed Mining Projects: Governments are heavily investing in domestic extraction and processing facilities to secure their supply chains. These state-sponsored spending initiatives can offer stability but can crowd out private investments.

Company Specific: Companies with robust and secure supply chains are increasingly valued for their resilience and low earnings volatility. Investors are willing to pay more for companies that have reduced dependency on foreign sources and commit to ethical sourcing practices.

Conclusion

This is just the beginning of a battle for critical commodities. As supply chains shift from globalization to national security, investors and businesses must stay ahead of the geopolitical and economic shifts that will shape the next decade (i.e. technological innovation, AI, electrification and power demand). In a rapidly evolving landscape, agility and long-term planning will be essential to navigate this volatility and emerging supply constraints (i.e. DRC cobalt conflict). And, as countries realign policy on keeping resources close to home, the way that tech, energy, and manufacturing interplay is set to totally change the global game. This drives home the need to have a solid diversified supply strategy for future success.

NEWS YOU CAN USE

Punxsutawney Phil, the famous weather-predicting groundhog, saw his shadow on February 2, 2025, which stands to forecast six more weeks of winter. The annual 139th Groundhog Day celebration in Pennsylvania showcased a record-sized crowd, which has been seemingly growing every year since the movie Groundhog Day. Phil's prediction (based on whether he sees his shadow) has been inaccurate more than half the time, but yet, remains a cherished tradition. Groundhog Day events also take place in other regions and states like Georgia and Canada, trying to predict more winter as well.

[MSN - Punxsutawney Phil Groundhog Day]

Careful what you throw in the trash! A 2,000-year-old marble statue of a woman was found in a garbage bag near Thessaloniki, Greece last week. The headless statue (nearly three feet tall) was handed over to authorities, and then archaeologists. Initial evaluations suggest the statue is from 320-30 BC (the Hellenistic era). Not much is yet known on who disposed of the statue, but archaeological finds are common in Greece, especially upon public work construction. Thessaloniki has revealed many historical discoveries during the decades' long construction of its metro system, and they are now displayed at subway stations.

[AP News - Ancient Greek Statue Disposed]

In December 2023, we wrote of Pickleball being the fastest growing sport in America. Well, another year has gone by, and, it hasn't slowed down in its first year as a unified professional sport. According to the Professional Pickleball Association (PPA), there was significant growth in attendance, players, and even salary. The average pay of more than 60 women on the PPA tour and Major League Pickleball was $260,000. This is more than the highest paid player in the WNBA, and more than double the average salary in the National Women's Soccer League. In total, pro pickleball players, men and women, earned over $30 million in salary last year, which excludes any endorsement deals. With these kinds of statistics, we're sure pickleball is not far away from mainstream TV.

[CNBC - Pro Pickleball Players]

As always, if we can be of additional guidance, please feel free to call us at 312.485.6847. Best regards,

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