Cornerstone
ASSET MANAGEMENT GROUP, LLC

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

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Turning the Page to 2025:
As we welcome 2025, we remain optimistic about the opportunities in the financial markets. This confidence stems from a combination of resilient economic conditions, sound fiscal and monetary policies, and strategic planning that positions us to navigate the complexities of the year ahead. This letter to you provides a 10,000-foot view of our outlook, highlighting the catalysts for market growth while acknowledging the potential challenges.

The 2025 Landscape:
One of the most compelling themes for 2025 is the ongoing AI boom. It's remarkable how the Nasdaq's trajectory since the release of ChatGPT in late 2022 mirrors its performance after the launch of Netscape in 1994. The Nasdaq has gained about 80% since then, and if history is a guide, we may see further growth akin to the late 1990s tech surge.

AI represents a transformative opportunity on par with, or exceeding, past technological milestones. We are actively identifying opportunities in AI and related sectors, including hardware, software, and perhaps most important, infrastructure, as this innovation wave continues to evolve.

Economic Outlook:
Three key factors underpin our growth expectations:

1. **Consumer Spending:**
    - Strong real wage growth and record non-labor income are sustaining spending.
    - Rising asset values are empowering Baby Boomers, who control $80 trillion in wealth, to spend confidently.
2. **Corporate Investment:**
    - Businesses are thriving, with record investments in technology and innovation.
    - Small businesses are optimistic and plan to expand, driving economic growth.
3. **Productivity Growth:**
    - Advances in technology and a tight labor market are boosting productivity, which we expect to accelerate to 3%-3.5% annually. This will support GDP growth, control inflation, and strengthen corporate profit margins.

Challenges to Watch:
Inflation and Federal Reserve policy remain key concerns:
While inflation is trending toward the Fed's 2% target, recent rate cuts may slow progress. Core inflation at 2.8%-3.0% could prompt the Fed to reconsider easing, even as long-term Treasury yields reflect economic optimism and debt concerns.

Growth Dynamics:
Valuations remain a focus, with the S&P 500's forward P/E ratio at 22. Excluding the Mag 7, it's a more reasonable 19.6. Profit margins are widening across sectors, particularly in cyclical areas like Technology, Financials, and Industrials, which stand to benefit from AI-driven growth.

Global Context: Relative Advantages:
While the U.S. economy remains robust, challenges abroad may bolster its relative appeal:

- **China:** Persistent property market struggles and demographic headwinds limit recovery.
- **Europe**: Political instability and declining confidence weigh on growth, potentially weakening the euro further.

Geopolitical Issues
Geopolitical risks remain ever-present but have had minimal market impact recently. We anticipate stable energy prices due to slower growth in Europe and China, which could benefit U.S. manufacturing. Trade tensions under the new administration may resurface, but we expect pragmatic policies to prevail.

Looking Ahead
Equities in 2025 look well-supported by resilient spending, rising productivity, and accommodative monetary and fiscal policies. While risks such as inflation and geopolitical tensions persist, a long-term, risk-aware approach remains essential. Avoid timing the market and focus on your financial goals, as steady, disciplined investing is the key to success.
As always, we are here to discuss how these insights may shape your portfolio strategy. Thank you for your continued trust and confidence.

Here is your look at developments in the global marketplace.

POSITIVE DEVELOPMENTS

- Retail sales came in higher than projected in November. E-commerce had a good month, with sales at nonstore retailers—often a proxy for online-only stores—up 1.8% from last mo., and 9.8% higher than last November. This bodes well for the Q4 GDP outlook.

- The US consumer is in very good shape. Strong real wage gains and record non-labor income (e.g., dividends and interest) are fueling spending. Meanwhile the “wealth effect” is in full operating mode as rising asset prices of stocks and homes are allowing consumers to save less and spend more of their income. This is particularly prevalent among Baby Boomers; they hold a record $80Tof the $154T in total US household wealth, according to Yardeni Economics.

- When the Fed announced the 25bp rate cut on 12/18, the markets did not like the hawkish tenor of the presser. The good news, however, was that the underlying cause for the Fed's decision was economic health…the economy is growing faster than expected, underpinned by healthy labor markets. The Fed says its mandates are balanced, and the economy can withstand a higher-rate environment. The takeaway for investors is that economic health translates into corporate earnings power and capital returns, which ultimately supports the outlook for stocks.

- The final reading for real GDP growth in Q3 was revised upward from last month’s estimate, coming in at a 3.1% a/r., and the underlying components showed a slightly stronger mix. Upward revisions in consumer spending (primarily services), net exports, business investment (equipment & software), home building, and government purchases more than offset a downward revision to inventories.

- Strong income gains and healthy spending continued in November. Personal income rose 0.3% in November (and a more robust 0.5% when including upward revisions to prior months) and is up 5.3% in the past year.

- FactSet reports that at the beginning of 2023 assets in money market funds totaled a little more than $4.5T and today total nearly $6.8T. These cash funds will certainly serve as support for stocks when the equity market experiences a pullback as some of the cash will likely find its way into stocks on “buy the dip” initiatives.

NEUTRAL DEVELOPMENTS

- The National Federation of Independent Business (NFIB) released its November survey for small business sentiment. The Optimism Index surged b 8 points last mo., its biggest jump since 1980 and up to the highest level since June 2021. The main catalyst was the election. Note, this index has increasingly been politically sensitive in recent election cycles. Republican administrations have tended to correlate with stronger small-business optimism and vice versa when Democrats are in power.

- Stock buyback plans have surged to a record-breaking $1.248 trillion in 2024, as corporate executives capitalize on strong earnings and improving consumer and business confidence. This comes as the S&P 500 nears a historic 60% two-year gain, marking its strongest back-to-back advance since 1998. While buybacks reward shareholders, they've sparked debate over whether funds would be better spent on growth initiatives or strategic investments.

- *Existing* home sales continued to show signs of life in Nov., rising for the 2nd mo. in a row. While the headline gain of 4.8% is positive news, sales activity is subdued. The 4.2M pace of Nov. is well below the roughly 5.3M annual pace that existed pre-COVID, let alone the 6.5M pace during COVID. One problem recently is that since the Fed began cutting interest rates in Sept., 30-yr. fixed mortgage rates have risen back above 7%.

- Relatively high interest rates in the U.S. explain the dollar's recent strength, nearing parity with the euro. While boosting the appeal of U.S. bonds, this pressures foreign economies struggling to match U.S. sovereign debt returns. Still, a strong dollar, potential tax cuts, and pro-business policies continue attracting capital to U.S. markets.

NEGATIVE DEVELOPMENTS

- It is not at all clear that inflation problems are behind us. Producer prices rose 0.4% in November, and prices have been accelerating over the past six months. The rise in November was led by food prices, which jumped 3.1% in November due to a 54.6% surge in egg prices (a breakout of bird flu has hurt egg production), while energy prices rose 0.2%. *I was wondering why my favorite breakfast house raised my omelet prices by $1.50!*

- The Administrative Office of the U.S. Courts reported that 504,112 individuals and businesses filed for bankruptcy protection over the trailing 12-mo period ended Sept. 2024, an increase of 16.2%. For comparison, bankruptcy filings totaled an all-time high of nearly 1.6M in September 2010.

- Bloomberg reported that the futures price for arabica coffee beans stood at a record $3.46 per pound on 12/10/24, representing an increase of more than 80% in 2024 alone, according to its own release. Surging demand from China and a series of disappointing harvests have led to reduction in global coffee stockpiles over the past 4 yrs.

- November was another tough month for homebuilders, as housing starts declined 1.8%, falling to a 4-mo. low. However, the details for November were not quite as bad as the headline. The decline in starts in November was entirely due to a 23.2% drop in the volatile multi-family category, which more than offset a 6.4% rebound in single-family construction as hurricane weather delayed activity in the South and Northeast regions the previous month.

- New orders for durable goods fell for the 3rd time in 4 mos. in Nov., and are down 5.2% in the past year. Transportation drove orders lower in Nov., but can swing wildly from month to month as aircraft orders tend to vacillate over time. That was the case once again in November, as commercial aircraft orders fell 7.0% and defense aircraft orders declined 2.6%.

MARKETS

The November Trump rally continued to press forward into late December only to be slowed by Santa Claus who apparently threw coal in the market's stocking.

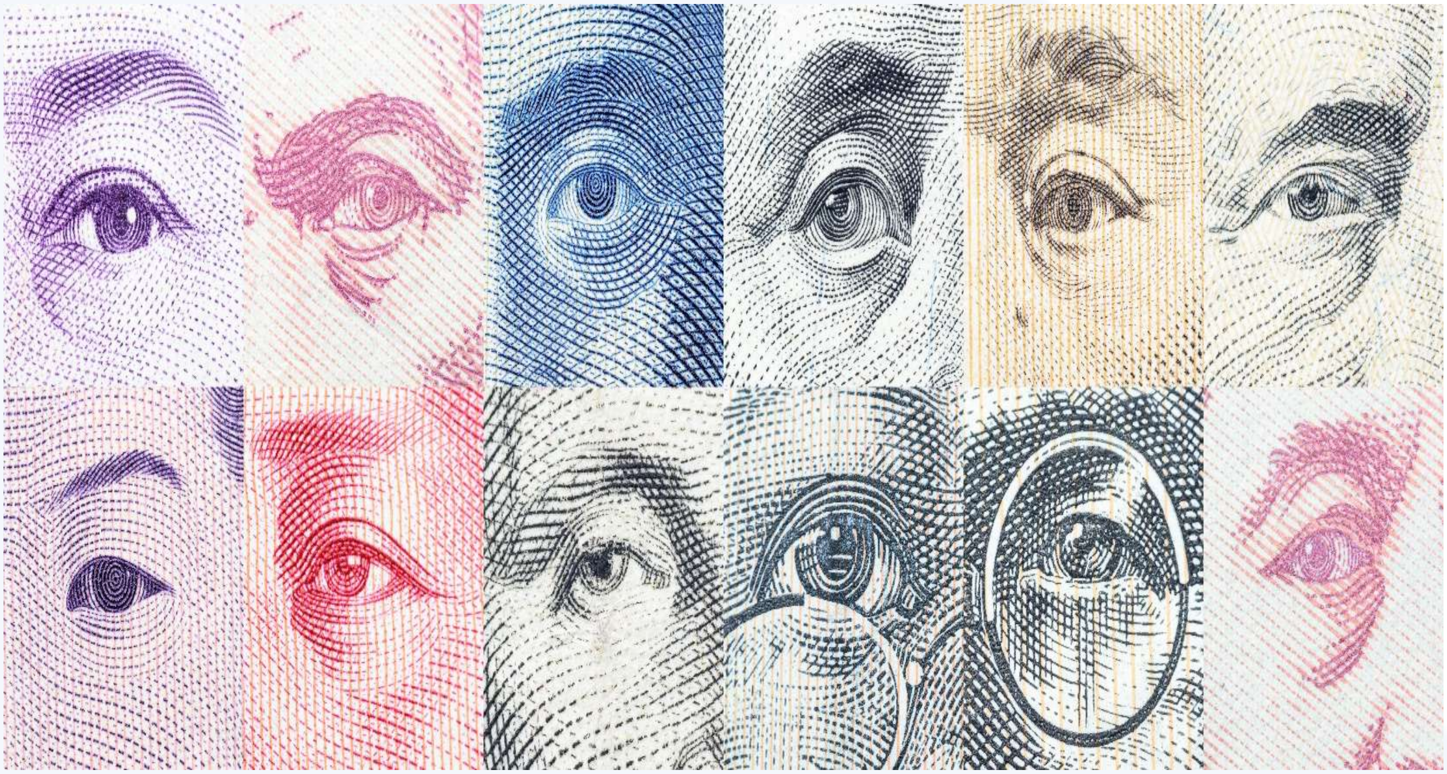
There was a fair amount of profit taking at year-end as the Mag 7 turned south. The market is setting up nicely as we enter 2025 as plenty of cash is waiting for a home which looks like we may see a broadening of the market when traders and investors return to work.

Last month, communications, consumer discretionary and tech were leaders while materials, energy and real estate were big laggards.

On the fixed income front, the 10-year Treasury yield climbed from 4.15% to 4.58%. This jump served to discount future earnings profiles and became a partial catalyst to year end profit taking.

U.S Index	Last Month (% return)	YTD (%)
S&P 500	-2.7%	23.3%
Dow Jones	-5.0%	12.9%
NASDAQ Comp	-0.5%	28.7%
Russell 2000	-8.3%	10.1%

Source: https://tradingeconomics.com/stocks

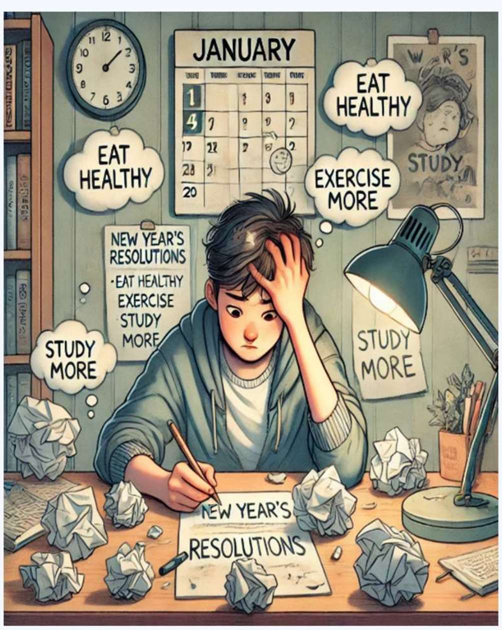


New Years Resolutions 2025

By: Brett Suchy

Well, it’s the beginning of a New Year, representative of a new cycle for fresh beginnings and endings, new thoughts, new dreams, and new goals. Each year, it’s impossible not to feel that sense of renewal and to gear your focus on the possibilities ahead. Many people and businesses treat January as a month to reflect on the past, set new intentions, and, hopefully, be optimistic about what the fresh year will bring. For me, of course, the Chicago cold and gloom allows ample time in January to reflect & plan. Perhaps, too much time. Yet, how often do we find ourselves repeating a very familiar cycle…making grand New Year’s resolutions - broad-based goals such as eating healthier, exercising more, spending less – only to find our enthusiasm wane by mid-February?

So, why is this rodeo so familiar? Typically, our resolutions are built on brief bursts of motivation rather than sustainable habits. Innately, we strive for perfection, seeking lofty goals without first considering all the baby steps to get there. For instance, your #1 resolution may be to ‘eat healthier’, but that doesn’t mean you have to cut out the Haribo gummy bears overnight. Instead, specify the approach: perhaps small, consistent, decremental # of gummy bears over time. When you don’t consider the incremental steps and shoot strictly at ‘lofty’ or ‘broad’ goals, you’re essentially setting yourself up for self-perceived failure. And, let’s be honest, failure never feels good, and can kill the enthusiasm the fresh year just brought.

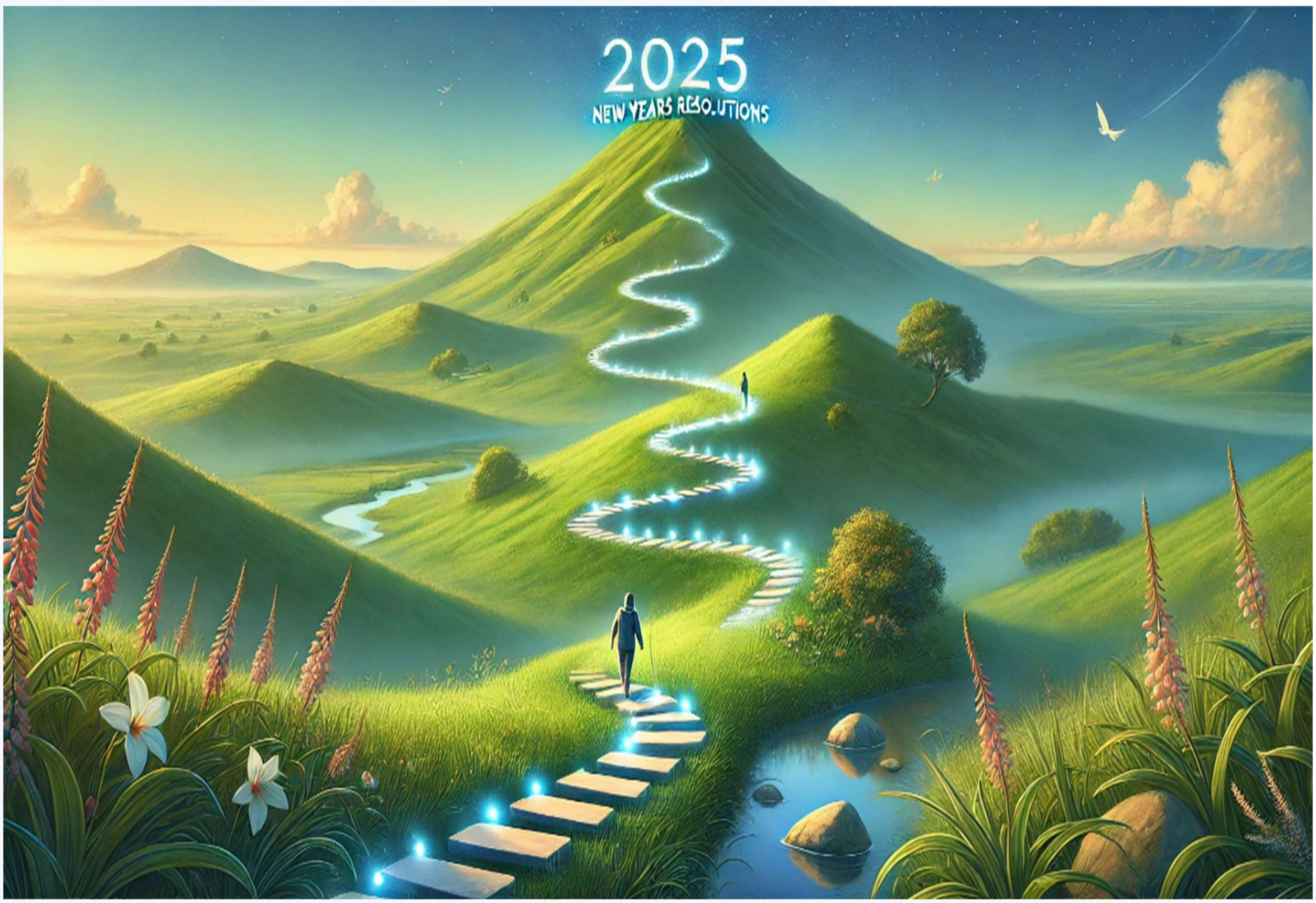


You may be asking yourself, how am I pawning myself as a semi-pro at NY resolutions? Ever since we could hold a pen, my sister, Laura, and I have been required to write down and submit 10 New Year’s resolutions to our dad each year. Often, especially in our high school – college years, he’d still be hounding us for our lists well into March. This seems like an easy task, right? Well, it is…when you just blab out 10 generic wishes and brief desires to get the exercise over with, which, Laura and I probably did for the first 15 years of submission. However, Dad started to occasionally pull out our lists throughout the year(s), or emailing them back to us, asking if we’ve made any progress towards our lofty and thoughtless goals. So, over time, we learned to brainstorm more thoughtfully and give more specificity to our resolutions, ones that were manageable, and ones that we’d be motivated to achieve (because no one wants to be called out by Dad). In conclusion, the lessons from this tradition are not solely rooted in accountability and sustainability; they’re also a reminder that resolutions aren’t just for January. They’re there whenever you need a nudge.

With that said, I know very well on January 1st, every year, one of the first questions I will be asked is, “Can you send me over your New Years Resolutions?” So, typically I have a head start on everyone, and I thought I’d share a couple. First, I want to give more compliments, even if they are so subtle. We often have so many compliments to give one another, but often, they go unsaid. But you and I both know we love a compliment, again, even if it’s so subtle. So, the action step – identify 4 or 5 complimentary phrases to introduce over time that become staples (I’m not revealing these, just in case this comes back to bite me when I comment on how great of a listener you are, or, one of a kind). And more importantly I want to be more conscious of different compliments I can give…and then actually give them. Second, I want to not overlook the massive value in self-reflection. Taking time to identify what and who gives me the most fulfillment in life, and then finding ways to foster those aspects and relationships is vital.

Now, after all this resolution talk, here’s the thing: resolutions cannot be looked at through the lens of perfection, but of progress. And, perhaps we should just rename them to ‘friendly nudges’ to make it seem less intense. Maybe you’ll nail every single one you set this year, maybe you’ll nail none, maybe you’ll pivot or find some things that are better. In the end, the magic is in the journey, and always give yourself some grace for detours.

In closing, as we step into 25’, embrace it as a chance to improve both yourself and your relationships. Perhaps, pull a tradition card out of the Suchy playbook and throw down 10 thoughtful resolutions to revisit every month of the year. Shoot big, but understand the steps to get there. Do not set yourself up for failure and have forgiveness for yourself if you stumble. Persistence is the true key to establishing habits. And, if all else fails, just remember…there’s always next year’s list.



NEWS YOU CAN USE

Well, if there's ever a finance-strapped time to get married, now may be it. In December, diamond prices saw a notable decline, driven by a combination of market trends. Demand for luxury goods has softened amid economic uncertainty, with consumers prioritizing essential purchases over high-priced goods. In addition, the increase in lab-grown diamonds…which offer similar quality at a fraction of the cost, has pressured the natural diamond market. Jewelers are grappling with excess inventory due to sluggish sales earlier this year. In late December, De Beers', the world's largest diamond producer by revenue, announced that they were sitting on the biggest stockpile of diamonds since 2008.

MSN - De Beer's Stockpile

On December 4th, Chuck Hildebrandt, now 63, attempted to return an overdue book to his hometown library in Michigan on the 50th anniversary of his check out date. Chuck. anticipating some sort of wrist slap, was instead given forgiveness by the library director, and told to keep the book. So, it seems Chuck got away with the act in 1974 and is still carrying "Baseball's Zaniest Stars" on his bookshelf. Hildebrandt is now trying to raise $4,564 (symbolic of 50 years of overdue library fees) for Reading is Fundamental, a literacy nonprofit. He has seeded 10% of that money himself, ensuring the story ends with a focus on promoting literacy.

AP News - Michigan Library Overdue Book

The NORAD (North American Aerospace Defense Command) Tracks Santa program, a Christmas tradition since 1955, uses technology to simulate tracking Santa as he delivers gifts worldwide. Originating from a child's mistaken call to a military line, Colonel Harry Shoup responded as Santa, sparking this annual event to unfold. Today, over 100,000 kids call NORAD each year, and millions track Santa online in nine languages. On Christmas Eve, volunteers answer questions about Santa's location, leveraging radar and satellites to trace his journey. This tradition highlights Santa's story through a modern lens, blending festive cheer with NORAD's technological expertise.

AP News - NORAD Santa Tracker Program

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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