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ASSET MANAGEMENT GROUP, LLC

Economic Indicators | June 2024 | By Kim W. Suchy & Brett E. Suchy

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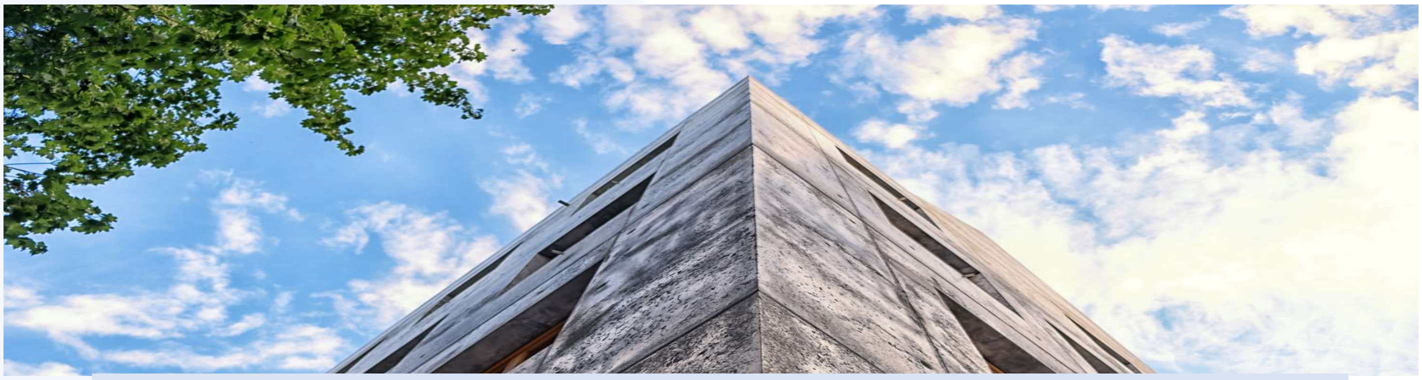


May was certainly kind to the markets following a rather dismal April. It appears as though we are witnessing some favorable changes in the current market landscape and the factors driving its recent performance. Contrary to the narrow Magnificent Seven-led rally seen earlier in the year, the current bull-run is more broadly based and driven by several key catalysts. These dynamics suggest that the market could sustain its upward momentum for an extended period of time.

First, perhaps the most significant development has been the cooling trend in core inflation. The month-over-month change in the Consumer Price Index (CPI) for April provided a welcome relief, coming in at 3.6%, down from 3.8% in March, and aligning with market expectations. While this disinflation is only a small step toward the Federal Reserve's 2% target, it has bolstered bullish sentiment despite the Fed's cautious, wait-and-see approach on cutting rates.

Second, although the Fed maintains the Fed Funds rate at 5.25%-5.50%, Treasury yields have been edging lower. This suggests that bond investors expect softer economic conditions ahead. April's retail sales data was flat against an expected 0.4% increase, and the University of Michigan Consumer Sentiment Survey for May showed a significant drop to 67.4 from the expected 76.5. These figures reflect consumer caution, driven by concerns over inflation, unemployment, and interest rates.

In response to the cautions, the yield on the 2-year Treasury fell from 5.04% at the end of April to 4.90% as we closed May, while the 10-year Treasury yield dropped from 4.74% to 4.46%. Historically, bond market trends often precede shifts in Fed policy. Despite high prices for housing, food, and energy, the April Non-Farm Payrolls report, which showed 175K jobs added against a 250K expectation, fueled a bond market rally suggesting the labor market is cooling thus, rates slid. As you have heard from us several times, falling rates are often bullish for equities as the earnings discount factor compresses and boosts future earnings streams. Further, investors will gravitate towards stocks and other alternatives when bond yields fall.

Finally, a key feature of this recent rally is the broadening market participation, as evidenced by the rallies in utilities, commodities, and small and mid-cap stocks. This broad-based participation is crucial, marking a departure from the narrow leadership (Mega 7) that characterized much of 2023. This improved breadth is a positive technical indicator, which should provide a nice foundation for the market to extend its recent gains.

As always, we remain committed to providing you with timely and insightful analysis to help you navigate these changing conditions.

Here is your look at developments in the global marketplace.

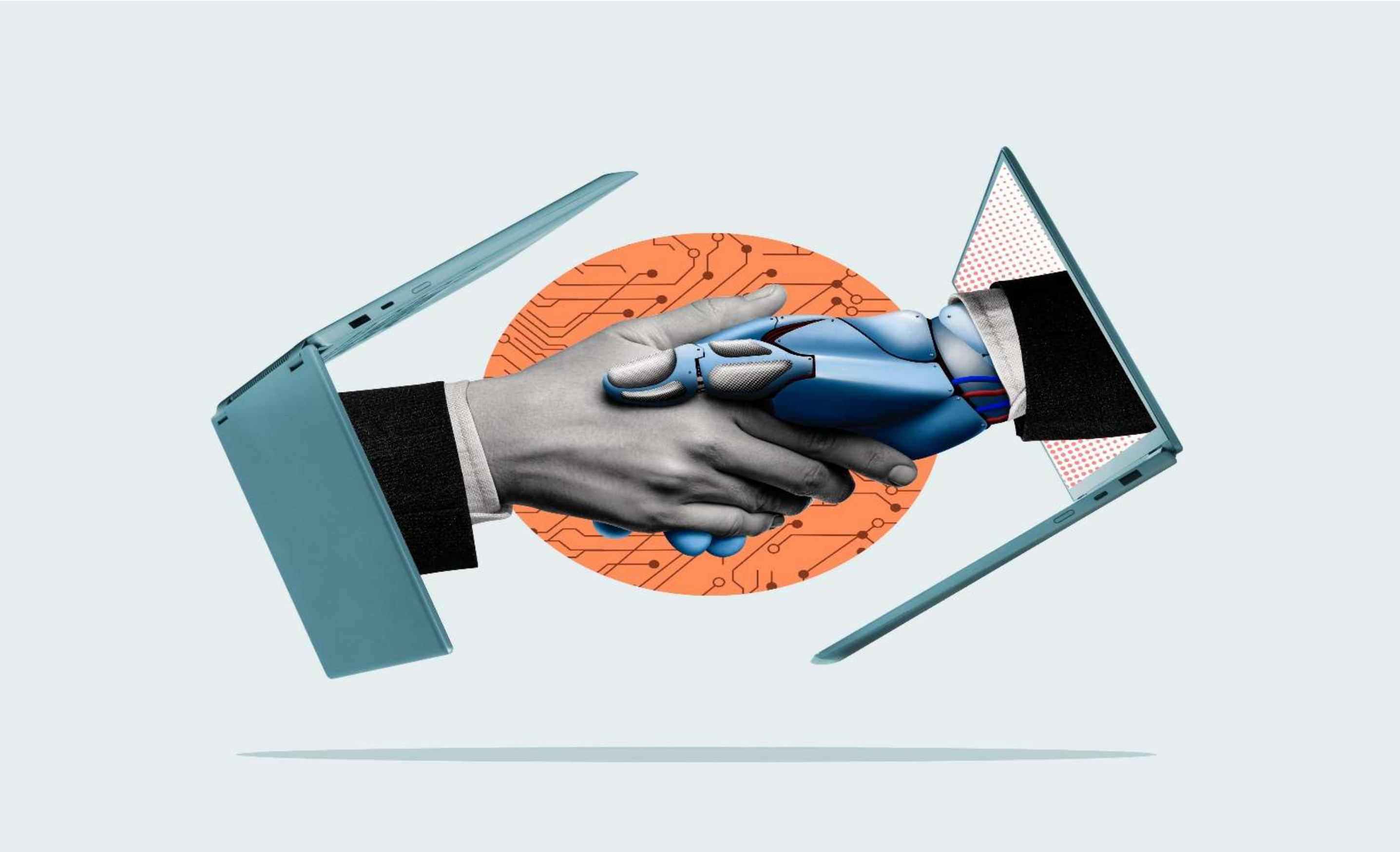
POSITIVE DEVELOPMENTS

- The Bureau of Labor Statistics reports that personal incomes continue to be supported by higher rates, dividends, and rents. Nonlabor income is around a record $6.6T as of March, or $5.4T on an inflation-adjusted basis. This has helped consumers against rising debt-servicing costs and supported the consumption of Boomers and higher-income households.

- The Eurozone CPI confirmed its estimate of 2.4% y/y in April, matching its lowest rate since summer 2021, while the core CPI also matched its to 2.7% flash estimate—which was the lowest rate since February 2022. Both are down sharply from their recent peaks of 10.6% in October 2022 and 5.7% in March 2023. The Euro Central Bank announced it may cut interest rates early this summer to give the Euro economies a boost. This should provide stimulus for their equity markets as well.

- Ben Fowke, the interim CEO of American Electric Power Co., noted that electricity demand, which had been stagnant for two decades, is now rising due to the needs of large customers like industrial manufacturers and data processors. Fowke explained that while a large manufacturing facility used to consume power equivalent to 100,000 homes, modern data centers now require up to 15 times that amount. He predicted that power demand from data processing would double nationwide in the next three years. As an example, he mentioned that each request to OpenAI's ChatGPT uses 2.9 watt-hours, almost ten times more than a typical Google search.

- FactSet reports that Q1 earnings season are nearly complete SP500 (96% reported), and it turned out well for large caps (and especially mega caps). The SP500 earnings grew +6% YoY in Q1 - the strongest growth in nearly 2 years.
    - FactSet also reports that through its document search that the term "AI" in Q1 earnings call transcripts of all SP500 companies from March 15 through May 23, that 199 cited the term "AI" during their earnings call for Q1. This number is well above the 5-year average of 80 and the 10-year average of 50. AI is becoming more integrated into corporate operations.



NEUTRAL DEVELOPMENTS

- According to Yardeni Economics, the SP500 price index is up 11.2% YTD through 5/18's close, making new record highs again for the first time since the end of March. So too is the MegaCap-8 group of stocks (i.e., Alphabet, Amazon, Apple, Meta, Microsoft, Netflix, Nvidia, and Tesla). Their collective market capitalization has outperformed the index with a gain of 17.9% YTD; it was at a record high on Friday. The group's gigantic market cap has continued to push the SP500 price index higher—as it has been doing since the pandemic—but less so this year. Without the MegaCap-8, the SP500 would be up 9.6% YTD instead of 11.2%.

- Durable goods orders rose 0.7% M/M in April, better than the 0.9% decline that was expected and a touch slower than the 0.8% pace clocked in March, according to the U.S. Department of Commerce. The March number, though, was revised down from the 2.6% jump initially reported.

- Briefing.com reports that The Fed's most recent tightening cycle began in March 2022 or 26 months ago. There are various views on impact, but it has been theorized that it can take anywhere from 6-18 months for a single rate hike to have a slowing effect on the economy. The opposite holds true for a rate cut. With certain economic variables having lagged impacts, many economists and market watchers remain on heightened alert for recessionary signals.

- Rising fiscal deficits have raised concerns about debt financing. However, demand has remained firm with most categories of buyers increasing their purchases with treasury yields in the 5% neighborhood. With foreign central banks now cutting rates, Treasuries have become even more attractive.

NEGATIVE DEVELOPMENTS

- Zillow analysis shows U.S. rents have surged in most markets over the last five years. U.S. rent prices have increased by 30.4% since 2019, significantly outstripping wage growth, which rose by only 20.2% during the same period. Chicago, for example, during this period, reveals that rents escalated 22.3% while wages increased 8.5%. In 2023, Chicago saw rents climb 5.4% while wages slumped 0.1%.

- The National Association of Home Builders index of housing market conditions fell by 6 pts to 45 in May, the lowest level since the start of the year. “A lack of progress on reducing inflation pushed long-term interest rates higher in Q1 and this is acting as a drag on builder sentiment,” NAHB Chief Economist Robert Dietz said in a statement.

- According to the New York Fed, credit card delinquencies are disproportionately high among card users using 90%-100% of their balances, or “maxed-out” borrowers. Roughly 1/3 of maxed-out balances transitioned into delinquency in Q1. The share of balances held by borrowers who are maxed out remains slightly below pre-pandemic levels, at 16%, as does the total number of borrowers who are maxed out (at 9%).

- Existing home sales continued to recede in April, likely the result of a normalization in activity following a significant gain back in February. Sales continue to fight headwinds from mortgage rates that are north of 7%. Meanwhile, home prices appear to be rising again, although modestly, with the median price of an existing home up 5.7% yoy.

- Atlanta Fed President Bostic, in an interview with Bloomberg stated that Inflation is sticky (and I paraphrase) …price increases in one place can cause price increases in other places down the road i.e. sustained higher fuel prices boost airfares, but the boost comes with a lag because airlines use futures to smooth fuel costs. There is a powerful example of lagged inflation pressure in car insurance premiums, which are surging. The 22% yoy rise in April reflects higher repair costs due to higher labor costs and higher replacement costs — in turn reflecting the shortage of cars produced when semiconductors were hard to find 3 years ago, during Covid. Inflation might be stubbornly running at more than 3% because inflation was high in prior years.

THE MARKETS

While many economists continue to parse inflation data looking for a reason for the Fed to cut rates, bond yields drifted lower anyway. Hints that the economy is slowing, causes yields to fall and gave a boost to stocks. The Dow, SP500, Nasdaq and Russell 2000 Indexes rallied in May recouping the April pullback. Utilities (yes utilities), materials, and tech were the month's largest gainers while energy, financials and industrials were laggards.

European markets were broadly higher in May as the central banks gave notice of future rate cuts. The Asian markets were mixed as China lost ground while Japan was modestly higher.

U.S Index	Last Month (% return)	YTD (%)
S&P 500	4.3	10.8
Dow Jones	1.2	2.7
NASDAQ Comp	5.6	11.5
Russell 2000	2.6	2.0

Source: https://tradingeconomics.com/stocks

Topic of the Month: The Evolution and Future of the Gig Economy

By: Brett E. Suchy

The gig economy, or commonly referred to as the sharing economy, has certainly reshaped our world of work and service. Gig work can offer flexibility, and independence to millions, all while challenging the traditional employment models that we had become accustomed to. Over the past decade, companies like Uber, Airbnb, DoorDash, and Etsy, have become household names, and have forged this new era of employment, and service provision. Yet, the growth of the gig economy hasn't been without its share of challenges.

The gig economy, characterized by short-term contracts or freelance work, was propelled by technological advancements that changed workforce preferences and economic factors. Among the most prominent players, platforms like Uber and Lyft have revolutionized transportation, allowing drivers to work on their own schedules. Similarly, Airbnb and VRBO have transformed the hospitality industry, enabling property owners to rent out their spaces on a temporary basis. These platforms and companies have created opportunities for individuals to earn income, flexibility, which caters well to this ever-growing desire for work-life balance.

The biggest impact of the gig economy is the disruption of traditional business models. For example, ride-sharing companies have given traditional taxi companies immense pressure given the convenience and cost. These platforms offer consumers quick and affordable rides with the ease of a mobile app, which traditional services just have struggled to match. Retail and delivery sectors have also felt the impact. Companies like Amazon have used gig workers for their delivery services, which has pushed traditional courier services to innovate and adapt. Also, the hospitality industry has seen a shift with platforms like Airbnb and VRBO all offering more personalized and often more affordable lodging compared to hotels.

However, with the rise of the gig economy has come legal battles. A major issue is the classification of gig workers as independent contractors rather than employees. Independent contractors may not receive benefits, such as health insurance, access to a retirement plan, or paid leave, which are standard for traditional employees. Critics argue that classification of independent contractors allows companies to sidestep providing essential employer benefits and protections. Gig companies argue that their workers value flexibility and independence more. One of the most prominent legal battles involves that of Uber & Lyft in Massachusetts, and certainly one to pay close attention to. The resolution of this legal battle could profoundly impact the gig economy's future. Reclassifying gig workers as employees could increase costs for companies and potentially alter the gig economies fundamental business model. This could also lead to a reduction in the flexibility that gig work currently offers.

Despite these challenges the gig economy shows no signs of slowing down. According to a report by Mastercard the global gig economy generated $204 Billion in total volume in 2018 and is projected to grow to $455 Billion by 2023. This growth is fueled by the increasing number of individuals seeking flexible work arrangements, and the expansion of gig platforms into new markets and industries. According to TeamStage, as of 2023, gig workers made up roughly 36% of the US workforce, with 52% of Americans saying they participated in gig work at some point in the year.

Sources: Fueling the global gig economy (mastercard.com)
Gig Economy Statistics 2024: Demographics and Trends | TeamStage

NEWS YOU CAN USE

Well, if you are in Dallas, and you like sports, well then maybe you're in heaven. NBA Dallas Mavericks and NHL Dallas Stars both reached the Western Conference Finals in their respective leagues for the first time in 31 years this postseason. The Mavericks have already moved on to secure a spot in the Championship Final against the Boston Celtics. However, the Stars failed to knock off the Edmonton Oilers over the weekend, to find just one Dallas team fighting for rings. At any rate, it is certainly a fun spring to be a Dallas fan.

NBA's Mavs and NHL's Stars chase a Dallas double with their deepest playoff run together | AP News

Cicadas have emerged across a dozen states this spring. However, if you are in Illinois, you are experiencing a double cicada phenomenon. Periodical cicadas, Brood XIII has made their 17-year appearance in Northern Illinois, and Brood XIX made their 13-year appearance in the southern half of Illinois. These two broods have not emerged at the same time in Illinois since 1803, and it won't happen again until 2245. Thus, soak it in Illinoisians. Make sure you visit both parts of the state to pet one, because there are only a few places they will intermingle.

The cicadas are coming! Periodical cicadas in Illinois in 2024 | Good Growing | Illinois Extension | UIUC

As Biden and Trump seek reelection, their ages have often come into question. Biden, 81, the oldest American President (held since age 78), is the ninth oldest leader in the world. And Trump, 77, is amongst the 20 oldest world leaders currently in power. But, the globe certainly boasts some seniority in the chief seat. Putin is 71, China's Xi is 70, India's Modi is 73, Brazil's Lula is 78, King Salman of Saudia Arabia is 88, Ayatollah Khamenei of Iran is 85, and Palestinian Authority leader Mahmoud Abbas is 83. The oldest national leader is President Paul Biya of Cameroon at 91 years old.

How Biden, 81, stacks up in age against other world leaders | Pew Research Center

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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