



# Cornerstone

ASSET MANAGEMENT GROUP, LLC

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

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Recent developments in the equity markets have featured a significant shift away from the dominance of the "Magnificent 7" tech giants toward previously undervalued areas such as small and mid-cap stocks, value sectors (dividend payers), and international markets.

Despite the Jerry Springer-like landscape of U.S. politics, diversified investors have survived the headline battlefield with remarkable resilience. This driver of performance is attributable to economic optimism energized by benign June U.S. CPI and PCE inflation reports. These favorable inflation results fueled a surge in small caps on speculation that the Fed could commence its interest rate cuts. Small caps, which rely heavily on floating rate debt, benefit significantly from lower rates as this reduces interest expenses and boosts earnings.

Particularly noteworthy was that the Russell 2000 Small Cap Index experienced an impressive rally posting a 12% gain in the latter half of July. The rally was magnified when the elevated level of short-positioned investors scrambled to cover their shorts and take on long positions. At the time of this writing, there are still plenty of short sellers holding their positions. Additional Fed dovishness or multiple rate cuts will induce traders to unwind their shorts and go long.

Note, the sustainability of small-cap performance rests on continued declines in rates for the *right* reasons. If yields fall due to slowing inflation and the Fed cuts rates considering a resilient economic growth backdrop, small caps will benefit from lower interest expenses and, most likely, enhanced profits. On the other hand, if rates are cut or fall due to weaker economic growth, small caps, despite falling interest expense would have profit margins compromised due to slow growth.

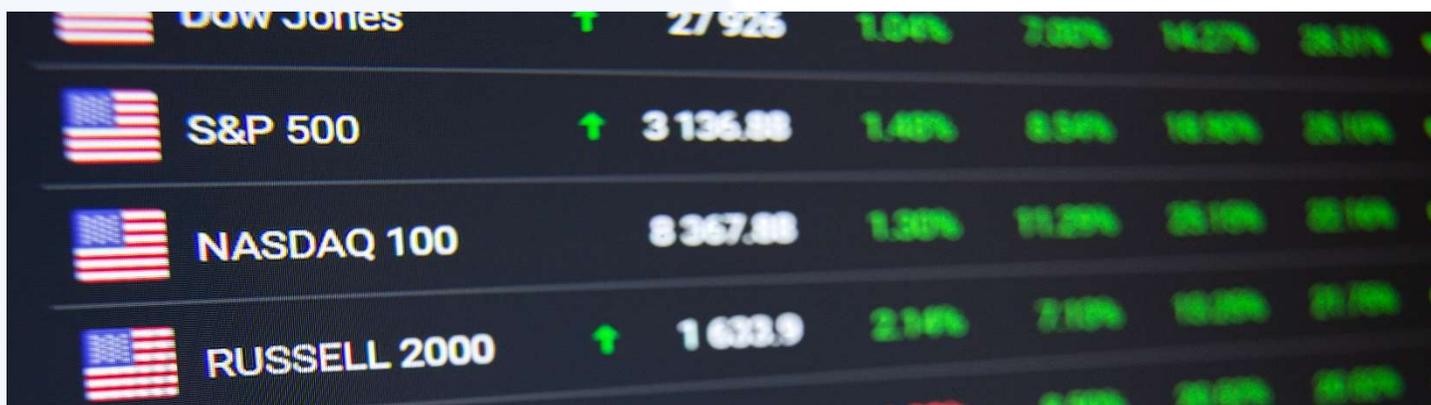
We should also note that it's important to consider the possibility that rates are left alone by the Fed or, in fact, are raised, because of expansionary fiscal policy or a resurgence in inflation. Such a scenario would halt the small-cap rally so while lower yields are beneficial, they must be driven by favorable economic conditions.



In conclusion, the recent market rotation and the strength of small caps highlight the dynamic nature of the current investment landscape. The expectation of rate cuts has already been *partially* priced in. Continued gains, in the near term, may be measured as historically, August and September are challenging months for the markets as traders head off to the Hamptons and trading volume is very light. We expect normalized market conditions will return when the kiddies are vacationed and back in school and the Fed gears up for its mid-September rate cut.

As always, we will continue to monitor these developments closely and adjust our strategies accordingly to navigate our client preferences.

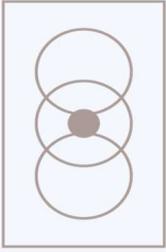
Here is your look at developments in the global marketplace.



## POSITIVE DEVELOPMENTS

- Small- and mid-cap stocks are beginning to show healthy signs of life. The SP400 Mid Cap Index and SP600 Small Cap Index were both up sizably in the last half of July. Their performance outpaced the SP500 by a large margin over this period. Hope is coming in the form of a potential rate cut as early as September particularly for smaller companies that rely on debt to fund operations. Note, larger companies hoard cash and make it possible to fund their capital expenditures and R&D budgets necessary to grow and maintain their competitive edge.
- Consumer spending rose 0.3% in June. Spending in May and April was also revised higher to show a healthier level of consumer expenditures. Consumer spending is the primary driver of growth, accounting for about 70% of the economy (GDP).
- Prices, as measured by the Fed's favorite measure, Personal Consumption Expenditures, rose slightly in June in another confirmation that inflation is slowing, keeping the Fed on track to cut high U.S. interest rates in the months ahead (likely in September). The increase in inflation in the past 12 mos. slipped to 2.5% from 2.6%, closer to the Fed goal of 2%.
- According to FactSet, 41% of the companies in the SP500 have reported actual results for Q2 2024 through last week. Of these companies, 78% have reported actual EPS above estimates, which is above the 5-year average of 77% and above the 10-year average of 74%. Looking ahead, analysts expect (yoy) earnings growth rates of 6.8% and 16.7% for Q3 2024, and Q4 2024, respectively. For CY 2024, analysts are calling for (yoy) earnings growth of 10.9%.





# NEUTRAL DEVELOPMENTS

- The U.S. Dollar outlook is favorable (bullish). The US is becoming a bigger net exporter of energy commodities, which increases the demand for U.S. dollars. Also boosting the Dollar is that many central banks have already begun to cut their Fed Fund rate equivalents. If the Fed does cut our Fed Funds rate once this year, then the dollar should remain firm in the foreign exchange markets.
- The rise in unemployment from 3.4% in April 2023 to 4.1% this June may seem worrisome. However, the latest increase in unemployment is a function of both a growing labor force, due in part to record immigration, and a normalization from the pandemic shock.
- Consumer sentiment has changed the last 3 mos. July's reading was a tick below June. Sentiment is 33% above June 2022's historical low, but, according to LSEG DataStream, "remains guarded as high prices continue to drag down attitudes, particularly for those with lower incomes."
- Mega cap tech stocks have taken a breather over the last 2 weeks. Earnings results from Alphabet and Tesla have given stockholders concern, which resulted in profit taking as monies gravitated elsewhere and now stocks in other sectors and industries are benefiting as the stock rally is currently broad based.





## NEGATIVE DEVELOPMENTS

- The typically strong spring selling season failed to materialize in 2024, with activity falling 5.4% in June, the 4<sup>th</sup> decline in a row. The housing market remains stuck in low gear due to affordability. First, sales are still facing headwinds from mortgage rates that are north of 7% and many buyers are likely delaying purchases until after the Fed delivers on widely anticipated rate cuts. Second, home prices continue to escalate with the median price of an existing home is up 4.1% from a year ago.
  - New home sales (counted at the signing of a contract) slumped to a 7-mo. low as home buyers continued to deal with an unaffordable housing market. New home sales fell for the 2<sup>nd</sup> mo. in a row in June, by 0.6% m/m and are 7.4% below year-ago levels.
- Fed Chair Powell, in a European conference in early July, was discussing risks facing the U.S. economy, and cited cyber-risk as a significant concern. Powell stated we can deal with credit risks and market dysfunction but a big cyberattack on the financial markets is a major worry. Sure enough, on July 19<sup>th</sup>, we all got a sense as to the disruption that might occur during a cyberattack or during an attack of the Ais. Cybersecurity firm CrowdStrike experienced a major disruption following an issue with a software update. Computer screens around the world froze with the error message commonly known as the “blue screen of death.” This temporarily disrupted the computer systems of airlines, banks, hospitals, and countless other critical systems around the world.
- Leading Economic Indicators (LEI) fell *again* in June and have not posted a gain since February 2022. The LEI slid 0.2% in June, following a 0.4% decrease in May and a 0.6% pullback in April. The LEI is down 14.8% from December’s 2021 record high and now rests at its lowest level since April 2020. Note, investors use leading indicators to help direct investment strategies as they try to anticipate market conditions. Investors look at indicators directly related to the stock market such as the housing market, retail sales, building permits and business startups.
- Data from Redfin revealed that nearly 56K contracts to purchase a home in the U.S. were canceled in June, accounting for 14.9% of all homes that went under contract in June. High mortgage rates and record-high home prices were cited as reasons for the cancelations. Sellers are now feeling the pressure as 20% of homes listed for sale cut their asking price cut in June.



# THE MARKETS

With interest rates falling in July, the rate sensitive sectors, real estate, utilities and financials, were the market leaders. Tech, communications and energy were laggards. Driving the interest rate sensitive stocks was the fact that the 10/2-yr. spread was at 35bps at the close of June and is now 20bps. The compressing inversion suggests a smaller likelihood of an economic slowdown.

The Dow and Russell 2000 (small cap index) were higher last month as they were beneficiaries of falling rates and a rotation away from the tech-heavy NASDAQ which retreated in July.

On the international front, Europe's Germany and U.K. were modestly higher while France finished in negative territory.

Asian markets were weak across the board with Japan, China, and Hong Kong broadly lower. India continues to be the bright spot on the international stage posting another strong monthly performance.



U.S Index	Last Month (% return)	YTD (%)
S&P 500	0.2	15.7
Dow Jones	3.8	8.4
NASDAQ Comp	-2.4	17.2
Russell 2000	10.9	11.3

Source: <https://tradingeconomics.com/stocks>



## Topic of the Month: USA & Games of the XXXIII Olympiad

The 2024 Summer Olympics features participants from 206 nations, 10,714 athletes, and 329 events in 32 sports. After 124 years, the Games have returned to Paris. The 1900 Paris Olympics were notable for being the first to allow women to compete. Remarkably, the 2024 Paris Games will achieve numerical gender parity on the field of play (equal representation of male and female athletes). Around 5,000 women are expected to compete, a marked difference to the 22 women who competed in the 1900 Games.

The USA has 592 athletes competing, with more than half of them being women. This represents the largest delegation of any country competing. 340 US athletes are making their Olympic debut, with 252 athletes making a return. In the field are 122 already crowned Olympic medalists, of which, are 7 athletes with 5+ career Olympic medals. 46 states are being represented, led by California (120), Florida (42) and Texas (41). Only Arkansas, North Dakota, West Virginia and Wyoming do not have Olympic representation.



Nielsen's Gracenote, which considers data from key global and continental competitions, projected the US to win the most medals in Paris (112), which would mark the eighth consecutive Summer Games that US would be at the top of the medal table. Nielsen's Virtual Medal Table projects the USA with 39 Gold, 32 Silver, and 41 Bronze Medals. In the 2020 Summer Games in Tokyo, the US won a total of 113 medals, and was the only country to attain the century mark in medals.

According to the Olympic Foundation, going into the Paris games, the US had raked in 2,975 total medals in Olympic history. On July 30<sup>th</sup>, the US crossed the 3,000-medal mark. The US has the most gold medals in Olympic history (1,179), which is followed by the Soviet Union (473), and Germany (365).

Team USA has had a strong start so far to the 2024 Games. As of July 31<sup>st</sup>, 2024, the USA has won a total of 30 medals, including 5 gold medals, 13 silver medals, and 12 bronze medals. Gold medals, so far, have come from Gymnastics, Fencing, and Swimming (3). The games are expected to close on August 11<sup>th</sup>, 2024.

[NBC Olympics - Team USA](#)

[Paris 2024 Olympics - Latest News, Schedules & Results](#)

[Nielsen - Olympic Games Virtual Medal Table](#)



## NEWS YOU CAN USE

If we were expecting the White Sox to make history this season, it wasn't going to be something fans would be proud of. Well, the Sox made history on July 30<sup>th</sup>, notching 16 consecutive losses, a franchise record. The record, of course, was achieved in honorable fashion (that is by blowing an eighth inning lead). The Sox notched 15 consecutive losses in 1967-1968, but it took 2 seasons. They concluded the 67' season with 5 losses and racked on another 10 L's in the 68' season. In the modern MLB era, the Philadelphia Phillies hold the all-time crown with 23 consecutive losses in 1961. Hopefully, a crown the Phillies get to keep.

[Chicago Tribue - White Sox Losing Streak](#)

This month, researchers published results from a study that used Karaoke to study the neuroscience behind blushing. Participants were videotaped singing challenging karaoke songs and later studied watching their own performance, as well as others in the study. As expected, participants blushed more when watching their own performance as opposed to others. Developmental Psychologist, Milica Nikolic, stated, "Blushing may be a part of the automatic arousal you feel when you are exposed and there is something that is relevant to the self."

[Karaoke Study Shows How Blushing Is Controlled By The Brain \(forbes.com\)](#)

This month, a 98-year-old physicist, Rosemary Fowler, was awarded an honorary PhD for the discovery of the kaon particle in 1948 while studying at the University of Bristol in the UK. Her finding was considered revolutionary in the theory of particle physics, which had deepened our understanding of fundamental particles and forces that govern their interactions. Fowler was forced to drop out of post-graduate school to raise her family 75 years ago.

[Physics Pioneer Receives PhD After 75 Years For Discovering Kaon Particle - Slashdot](#)

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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