Cornerstone
ASSET MANAGEMENT GROUP, LLC

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

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Finally, September is here, and we have lots to look forward to. Some good and some not so good. College football, pro football, a presidential debate, final 2023 tax payments (ugh), and a Fed rate meeting will highlight our calendars. In addition, the financial markets face a crucial period. Historically, September has been challenging for stocks, with notable selloffs over the past four years. This trend, coupled with the Fed rate decision and political mayhem, could make this September particularly volatile.

As we reported to you last week, Fed Chair Powell signaled that the Fed prepared to cut rates next month, the first reduction since 2020. While this news was met with a positive response from the market, stocks remain below their July highs. This rate cut, expected on September 18th, could be a "sell the news" event, particularly if it is only a 25bp reduction rather than 50bps.

Despite these potential headwinds, there are reasons for optimism. The Fed appears close to achieving a soft landing, and some of this optimism is reflected in the recent rebound in stock prices. However, September's historically poor performance and the market's current rich valuation—trading at 22 times expected earnings (approximately 17 times if we exclude the Mega 7)—suggest we should be prepared for increased volatility. Again, trading volume remains light, and it will for a bit (until the vacationing investors return work), so that in and of itself accentuates price volatility as bid/ask spreads widen as buyers seek sellers and vice versa.

In this choppy environment, we look for opportunities to take advantage of attractive pricing and yields. To use a technical term, we keep our powder dry and focus on value-oriented assets, particularly those with healthy cash flows and high dividend payouts, as these may provide stability amid market fluctuations.

As always, we will monitor these developments closely and adjust our strategies accordingly to protect and grow your investments.

Here is your look at developments in the global marketplace.

POSITIVE DEVELOPMENTS

- After Powell's policy adjustment announcement at Jackson Hole, there was a noticeable market tilt towards value, dividend-paying and small-cap stocks. Broad anticipation of falling interest rates makes bonds less attractive to stocks in comparison. It also suggests a potential shift in investor preference from high growth and volatile tech stocks (think Mega 7) to more stocks paying good dividends, a realignment that could define the next phase of market behavior. This plays well into Cornerstone Asset Management's core thesis.

- The U.S. economy displayed continued resilience in Q2, with real GDP growth (growth minus inflation) increasing by an annualized 2.8%. Increases in consumer spending, nonresidential fixed investment, and government spending all contributed to the gains.

- Gold prices have surged over 20% thus far in 2024. This has been driven by rising geopolitical tensions, strong central bank buying, and expectations of U.S. interest rate cuts this year.

- In August, consumer confidence rose to a 6 mo. high (from 100.3 to 103.3) despite deteriorating views on the job market. More upbeat views on the near-term outlook for the economy and inflation facilitated the boost.

- Moody's reported that its preliminary global speculative-grade bond default rate stood at 4.6% at the end of July, down from a revised rate of 4.9% in June. It forecasts the global default rate falling to 3.8% by late December. The global historical average default rate is 4.2%. By way of comparison, the U.S. speculative-grade default rate was 5.2% in July and Moody's sees the U.S. default rate decreasing to 4.4% by year-end. All this is good news for the lower grade bond market.

NEUTRAL DEVELOPMENTS

- *Existing* home sales rose for the first time in 5 mos. in July, yet remain near the slowest pace since the 2008 Financial Crisis. The housing market remains stuck in low gear due to affordability. Sales still face headwinds from elevated mortgage rates. While a recent rate decline contributed to the modest 1.3% gain in July, many buyers will continue delaying purchases until the Fed actually delivers.

- *New* home sales surged in July 10.6% posting the largest monthly gain in nearly 2 yrs. Now, with Fed Chair Powell indicating rates will be cut in mid-September, a new upward trend may be starting for sales. Thirty-year fixed mortgage rates have already fallen roughly 70bps over the last 2 mos. which is a key reason for the large gain in sales in July. Another key factor is that developers are making price concessions to help move their inventory.

  - *Note, the home sale market is probably not set to escalate when rates start to decline. Mortgage rates are not likely to slide back to 3% In addition, when the Fed does cut rates, buyers believe they will cut them more and hold back on purchases waiting for the even lower rates. Thus, rate cuts can lead to slower growth in the short run. Further, a presidential candidate has suggested a large tax credit for some buyers, which could also postpone purchases into next year.*

- Durable goods orders surged 9.9% in July. The gain was the largest monthly rise since July 2020, but it was all due to extremely volatile aircraft orders, which soared closer to normal after plunging in June. Excluding the transportation sector, orders for durables declined 0.2% in July, were revised lower for prior months, and are up a modest 0.6% yoy, and failed to keep pace with inflation.

NEGATIVE DEVELOPMENTS

- This month’s big negative was related to jobs. July’s job report was released by the Bureau of Labor Statistics (BLS) on August 2 with a weak number and downward revisions for the previous 2 mos. On August 21, the BLS released its preliminary benchmark payrolls revision for the 12-mo. period through March 2024. Both reports spooked Fed Chair Powell, because he mentioned them in his Jackson Hole speech last week. Powell quipped, “Payroll employment grew by an average of 170,000 per mo. over the 3 mos. ending in July. On August 21, the BLS released the preliminary estimate of the upcoming annual benchmark revision. The preliminary estimate indicates a downward adjustment to March 2024 total nonfarm employment of 818,000.” This prompted Powell to announce rate cuts as early as September.

- July was a tough month for homebuilders, as both housing starts, and new permits fell to the slowest pace since the Covid. Housing starts declined 6.8% in July and new building permits fell 4.0%. Over the past year, permits for single-family homes are down 1.6% while permits for multi-unit homes are down 16.4%. The positive for future homebuyers is that builders are stepping up efforts on completing projects already in their pipelines. Despite a dip in July, completions are up 13.8% yoy past year and are close to the highest pace since 2007.

- Yardeni Economics reports that the biggest inflationary risk in 2025 is that either the Democrats or the Republicans take it all—winning the White House, the House, and the Senate. The Democrats likely continue spending on projects and programs, while the Republicans likely would cut taxes. Either outcome would bloat the federal deficit, possibly boosting demand faster than supply, as occurred during the pandemic with inflationary consequences. Election results on November 5 will give us more guidance.

THE MARKETS

Larger cap stocks had a respectable month while small caps were a bit soft. Utilities, real estate and financial sectors had strong performance while energy, consumer discretionary and technology were laggards.

Across the pond, Asian markets were mixed with China and Japan posting losses in August while Hong Kong logged a healthy 3,.8% return. India eked out a 0.8% gain last month.

U.S. interest rates came down in anticipation of policy rates coming down. That anticipation has been rooted in favorable inflation news and cooling employment news. Fed Chair Powell announced that, "The time has come for policy to adjust." The 2-10 year spread fell from 29 basis points on August 1st to 0 basis points at the close of August. The flattening is good news as an inversion suggests the possibility for recession. It appears that the Fed may be preparing for a victory lap as it looks like they have successfully navigated a soft landing.

U.S Index	Last Month (% return)	YTD (%)
S&P 500	2.3	18.4
Dow Jones	1.8	10.3
NASDAQ Comp	0.6	18.0
Russell 2000	-1.9	9.2

Source: https://tradingeconomics.com/stocks

Topic of the Month: When Breaking Records Isn't a Good Thing - The Lakefront Losses Mount

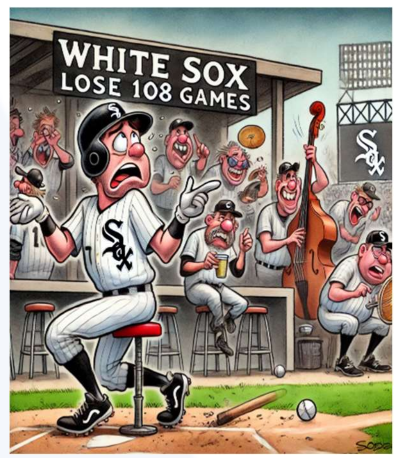
By: Brett E. Suchy

At the onset of September, there is always this short-lived euphoria that comes with the start of college and professional football. Not to mention Major League Baseball starts heating up as teams fight for playoff spots. I know our readers come from various states, but I know many have Illinois ties, and can relate to the trauma Chicago sports teams have caused us. This is a space to grieve, reflect, and perhaps get a better understanding of how important the Chicago Bears season really is.

So far, 2024 has been mostly sad on every playing field, rink, court in Chicago. Of course, there were pockets of glory, but I'm sure the most miraculous plays this year have come from our own backyards and clubs, and not from professional athletes. As we look forward to the chilly months and the comfort of the TV, it may make sense to consider dropping local sports networks from the Xfinity bill to avoid further distress, and, maybe save a few bucks. This may depend on how the Bears fare in the first two weeks.

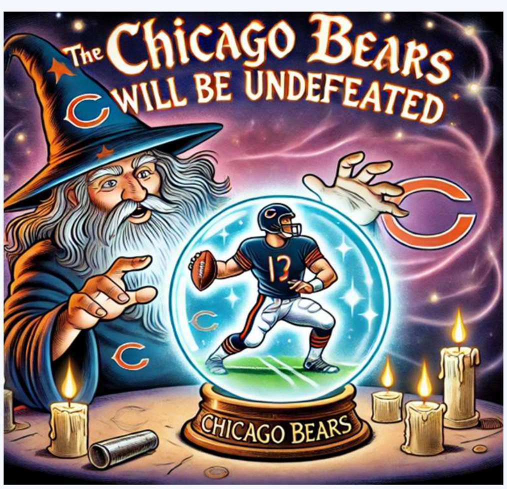
Obviously, the early months of 2024 brought more of the same Chicago disappointment out of the Bears, Blackhawks & Bulls. Most Blackhawks fans only watched the first 3 games the entire 2023-2024 season; solely to see hockey phenom Connor Bedard's debut. Pretty much every city in the country had Bedard on their big screens waiting for him to razzle dazzle. However, he is just one incredibly talented individual, amongst a team game. You need six talented guys on that ice, not just one, to have a winning team. In Bedard's first season, he scored 22 goals, notched 39 assists, and won the Calder Trophy for Rookie of the Year. Even with Bedard's talent, the Hawks finished 23-53-6, setting a Blackhawks franchise record for losses.

The Chicago Bulls had a tough season. Although they were plagued by injuries, the Bulls still managed to pull out a decent finish, 39-43, and ninth in the Eastern Conference. To conclude the 23'-24' season, the Bulls had a favorable window of opportunity into the playoffs, but declined to capitalize, and thought, "Well, maybe the Sox, Cubs or Bears will do something this year."



As a former baseball player and an avid fan with a Southside bias, I must comment more about the White Sox. Enduring this season was like watching a 4-hour movie that everyone says was good, only to watch and regret every second spent in the theatre. I was trying to pinpoint what genre this movie/season would fall under. Depending on how you look at it, the season could be either a Comedy or a Horror. It is certainly an Adventure, and quite a Mystery. The team is a Fantasy. We wish the movie were Science Fiction. It is by no means an Action or Thriller. And the ballpark is no place for Romance, well at least not ranked top ten in Chicago for dating destinations. However, it is quite clear that the movie should require no sequel, but will certainly spark interest in a documentary coined "Lost in the Outfield: Chicago White Sox 24': Field of Nightmares".

The numbers are bleak: the White Sox tied the AL record for consecutive losses (21 games), and the earliest team mathematical elimination from postseason since 1969. As of September 2nd, they have recorded 108 losses, already setting a franchise record, and on pace for 123 losses, which would enthrone them as the most losing baseball team of all time.



Now, of course, the White Sox are not the only team in town, so everyone can put their handkerchiefs away because there is a small glimmer of hope. The Cubs' season can be summed up in 7 words: hot, cold, hot, cold, cold, cold, and hot. Despite hovering around a .500-win percentage all year, they have managed to grab 12 Wins in their last fourteen games. They are now three games back from the Wild Card with thirteen games to go, though their playoff odds are 9%. A playoff berth would be exciting, but the euphoria might be short-lived given their troubles this year against top tier teams.

So far, Chicago sports have had a year we should, but may be hard to, forget: two teams set franchise records for losses (Sox & Hawks), while two teams flirted with playoff berths, but fell/may fall short (Bulls & Cubs?). Despite enduring a tough year thus far, Chicago fans are known for their short memory and unwavering loyalty, which is why we always think the Bears will be undefeated and coast to a Super Bowl despite being disappointed year after year. Our faith remains strong. Go Bears!

NEWS YOU CAN USE

An ultra-swimmer, Jim Dreyer, age 61, who also goes by The Shark, is attempting, yet again, to swim across Lake Michigan on Labor Day. The Shark successfully swam across Lake Michigan in 1998 (a 65-mile swim) and has since been unsuccessful in three attempts since 2023. On September 2nd, his journey will start in Grand Haven and end in Milwaukee, this time covering at least 80 miles in the water and 72+ hours without sleep. It's safe to say Dreyer isn't afraid of being alone and tired in vast bodies of water like the rest of us. He has basically lived in the water, and just 11 years ago, at the age of 50, the Shark was said to have eclipsed 25,000 total swimming miles, or equivalent to swimming around the world…I wonder if that will be an Olympic event one day.

AP News - The Shark

Jim The Shark Dreyer - Achievements

Joey Chestnut, a legend in the realm of competitive eating, demolished 83 hot dogs in 10 minutes during a Netflix special to take home a $100,000 prize. Inhaling 83 franks is 7 more than his prior personal best, which was also the previous red hot world record. Joey goes down for several astronomical eating awards involving the entire food pyramid, and perhaps even items on the periodic table. It's quite astonishing. One record I found rather interesting was Joey 'grazing' 141 hard-boiled eggs in eight minutes. I guess this is why he is ranked #1 in the world by Major League Eating.

Home | Major League Eating - IFOCE

Joey Chestnut-Kobayashi: Hot dog eating record set (83!) in win (usatoday.com)

A man in Atlanta, Mario, who didn't have much of anything to give, offered to pay for a businessman's drink at a convenience store after he had forgotten his wallet in his car. Touched by this generosity, and later, Mario's life story and struggles to support his family, the businessman helped raise $35,000 in 24 hours. This act of goodwill has penetrated through media, and has shown how small gestures can lead to big things.

Douglasville man raises $35,000 in 24 hours for stranger after a simple act of kindness

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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