Cornerstone
ASSET MANAGEMENT GROUP, LLC

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

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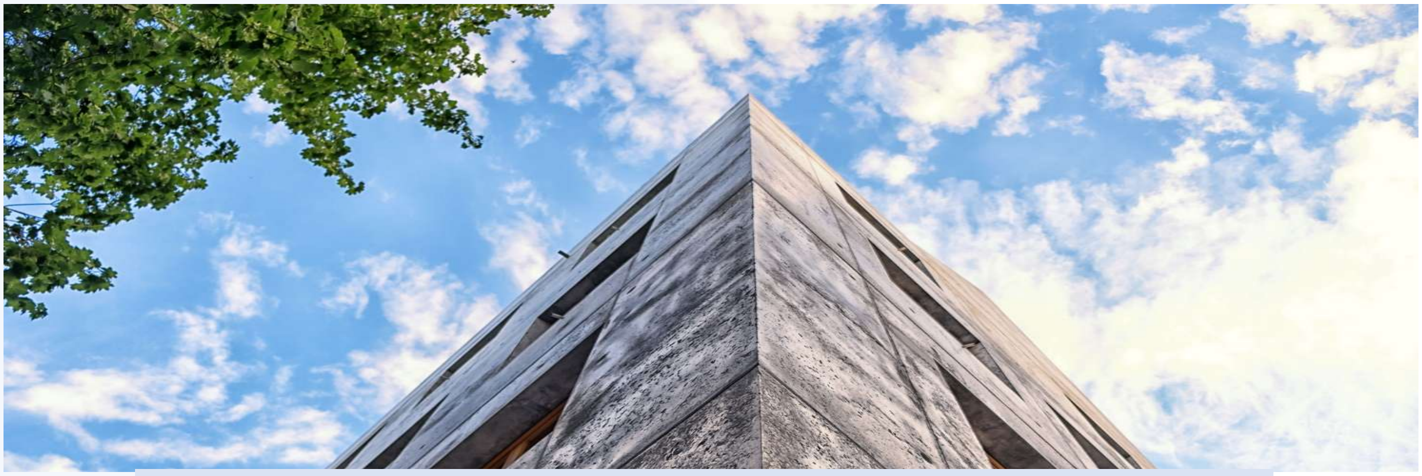


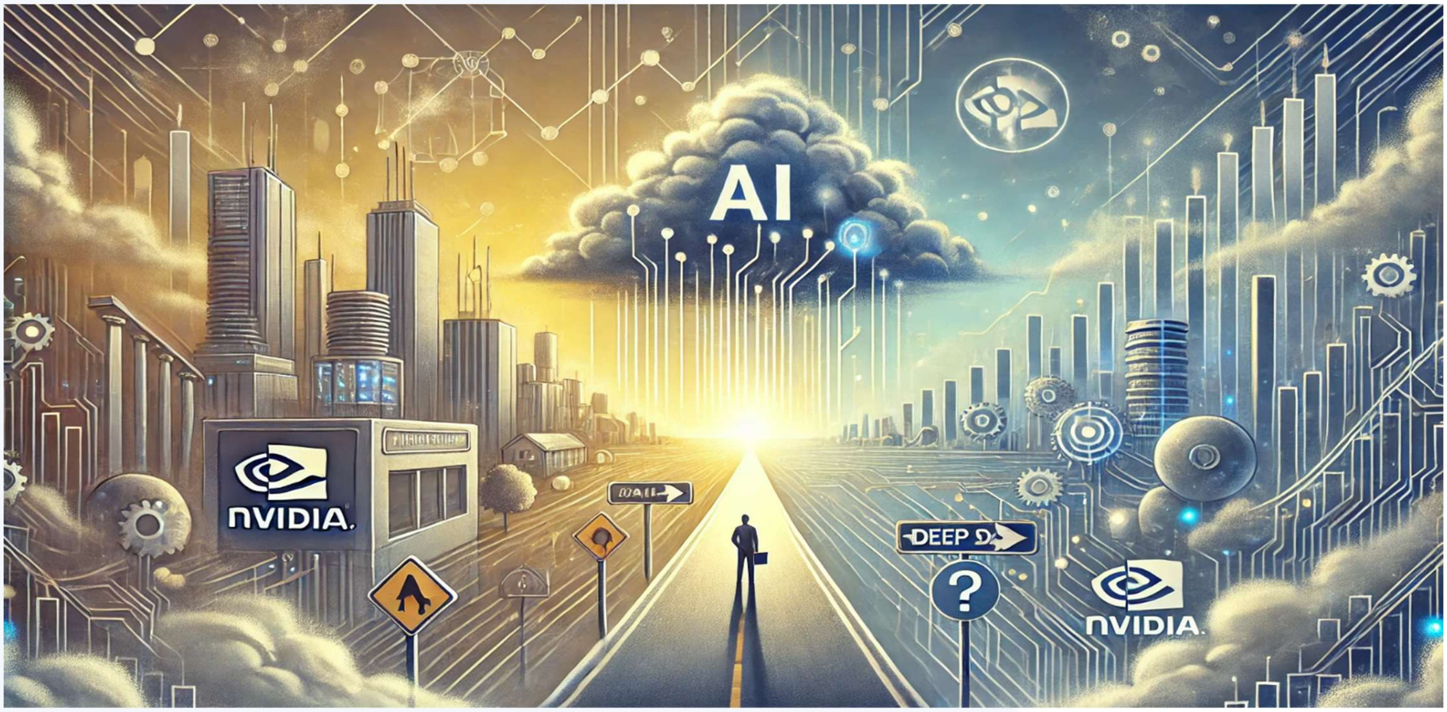
As we navigate through the early months of 2025, market conditions continue to evolve in ways that require perspective and patience. While recent headlines have centered on the usual cast of characters; geopolitics, DOGE, tariffs and market volatility (particularly in the technology sector), the broader economic backdrop remains solid.

One of the key developments weighing on the equity markets has been the stock price movement of Nvidia, the leader in AI technology. Despite a strong earnings report this past Wednesday, the stock has been experiencing pressure of late as investors reassess the long-term trajectory of AI spending. After the Chinese upstart, DeepSeek, declared it had developed a new AI model that can compete with the world's best without using expensive chips, Wall Street investors began to question all the spending it assumed would go into Nvidia's chips as well as the ecosystem supporting the broader AI boom, such as electricity to power large data centers. Given Nvidia's meteoric rise in recent years, periods of pullback are normal and healthy as they reflect the market's process of digesting new information.

In addition to equities, the Treasury market has also been adjusting to shifting policy dynamics, particularly as they relate to tariffs. The latest announcements on trade policy have generated some uncertainty (and investors hate uncertainty) as nervousness is mounting about potential impacts on inflation and consumer sentiment. We have seen interest rates recede lately which may suggest that tariffs could eventually tap the brakes of economic growth. Some factions are hinting that stagflation may also develop and become a tariff casualty… Whispers of this on the Street sent Treasury rates lower along with lower equity prices. While these factors, and others, do contribute to short-term market fluctuations, it's important to remember that the economy remains fundamentally strong, supported by a sound job market and a healthy consumer.

Market fluctuations are a normal part of investing, and our approach remains grounded in discipline and long-term value creation. We continue to monitor developments closely and position portfolios with a focus on quality, security valuation and balance. As always, if you have any questions, please give us a call.

Here is your look at developments in the global marketplace.



POSITIVE DEVELOPMENTS

- Industrial production continued to rebound at a faster than expected pace in January (+.5%), though not as strong as December's broad-based "Trump Bump" in activity. Businesses are now looking forward to a softer regulatory environment and lower tax rates on profits.

- The recent employment report was strong except for one component: the average hours worked per week fell to the lowest level since the pandemic, which could be weather related. In addition, the unemployment rate fell to 4.0%, indicating a slight tightening of the labor market which is now leading to employee wage gains.

- Manufacturing employees' hours worked fell by 0.7% m/m in January, which would typically indicate a similar drop in industrial production. However, industrial production rose 0.5% m/m, suggesting that US manufacturing may be in the early stages of a rolling recovery despite weather-related disruptions.

- Europe has seen a notable rally, partly on hopes for a Ukraine resolution which could mark a turning point for international markets, which have lagged the U.S. for years. This is one important element of the market broadening trade that many of us global investors have been waiting for.

NEUTRAL DEVELOPMENTS

- Housing starts retreated in January following a surge in December, but the 9.8% drop may not be entirely indicative of the underlying trend; unusually cold weather hit the country in January and likely held down homebuilding. Looking at the details, the drop in starts was broad-based, with both single-family and multi-family declining, and 3 out of 4 regions contributing. Over the last 12 mos., housing starts are down 0.7%, while permits for new builds are down 1.7%.

- Gold's path of least resistance remains sideways to higher, driven by current uncertainty. President Trump’s warning of new tariffs, are seen as potentially inflationary and a possible trigger for trade wars, is likely to further boost demand for safe-haven assets like gold.

- Durable goods orders rose 3.1%, mostly thanks to a rebound in civilian aircraft orders after a couple of turbulent months. Defense orders fell 1.5%, the smallest decline of 4 consecutive since September.

NEGATIVE DEVELOPMENTS

- Retail sales declined 0.9% in January as US consumers pulled back sharply in the 1st mo. of the year, with sales declining by the most in nearly 2 yrs. It’s likely bad weather and wildfires had a fair amount of impact.

- Fiscal spending is concerning: Over the past 12 mos. (thru 1/31), federal outlays totaled $7.1T, with $6T in mandatory outlays (including Social Security, Medicare, health, income security, national defense, and net interest. Net interest outlays alone totaled $921B, exceeding the $910B spent on defense over the last 12 mos. Source: Yardeni Economics.

- Consumer sentiment plunged in February to a 15-mo. low as tariff concerns boosted inflation expectations sharply higher for the 2nd straight month.

- Mortgage rates have not budged for several mos. despite rate cuts by the Fed. When combined with elevated home prices, housing affordability remains a major challenge. Existing home sales in January posted their first decline since September, falling 4.9% in January to 4.1M units.

- The federal government employs 3M workers, about 1.9% of U.S. payrolls, excluding the military. Economists see recent federal job cuts as having little impact on the economy, as many workers are expected to find jobs elsewhere. Past budget cuts (2011-2014) saw similar job losses, but the private sector added millions of jobs, and today’s low unemployment should help absorb the shift.

THE MARKETS

February was generally weak for U.S. equities as much of the damage focused on what had been the market's biggest winners in recent years, whose momentum seemed nearly impossible to stop at times…particularly stocks surrounding AI that have slumped sharply. Thus, the tech sector was a laggard last month along with communications and consumer discretionary. The bright light leaders were consumer staples, real estate and health care.

Across the pond, Europe was broadly higher as defense related industries surged given their revisited commitment to NATO and military support. Asia was mixed as Japan and India remain weak while China is beginning to rebound.

With respect to bonds, the 10-year Treasury has declined from 4.54% in early February and closed at 4.21%. Some of this is related to uncertainty surrounding tariffs and economic growth and the flight to safety given the array of geopolitical issues and volatility in the equity markets.

U.S Index	Last Month (% return)	YTD (%)
S&P 500	-1.5	1.2
Dow Jones	-1.9	3.1
NASDAQ Comp	-4.0	-2.4
Russell 2000	-5.3	-3.0

Source: https://tradingeconomics.com/stocks

Runway to Wall Street: Fashion Economics

By: Brett Suchy

As an investment firm we primarily write about economics and finance, which can sometimes feel cumbersome and numbers heavy. However, in this section, we try to connect these topics to everyday industries, consumer habits, and economic trends to make them easier to understand. Fashion, for example, isn't just about style, but often provides valuable insights into market moves and what is happening with our economy.

Now, to begin, fashion has never really been my forte. But recently, I've taken particular interest in learning more about the industry, not just to gain a better understanding of styles, but to get a deeper look into the consumer, trends and sentiment. Of course, spending time with someone who once permeated the runway may have nudged my curiosity a bit. But, also, an industry that generates over $2.5T in annual revenue, with industry giants like Louis Vuitton, Kering, and Zara driving mass market movements…these companies are not just selling clothes, rather setting economic trends.

First, let me add a little color to my fashion experience living in the USA. As a kid, like most, I couldn't care less about what I wore - my parents picked out my clothes (see Exhibit A). But once middle school rolled around, fashion became something you *had* to pay attention to. If you weren't wearing Abercrombie & Fitch or American Eagle, paired with saggy jeans and artistic boxers, you weren't following the herd, or the early 2000s aesthetic. For teenage girls, Ugg boots were non-negotiable, while Ugg slippers for boys were optional. I'm pretty sure I rocked the Ugg slippers as my main kicks for all three years of middle school…but, at that age, fashion wasn't about personal style, but about fitting in.

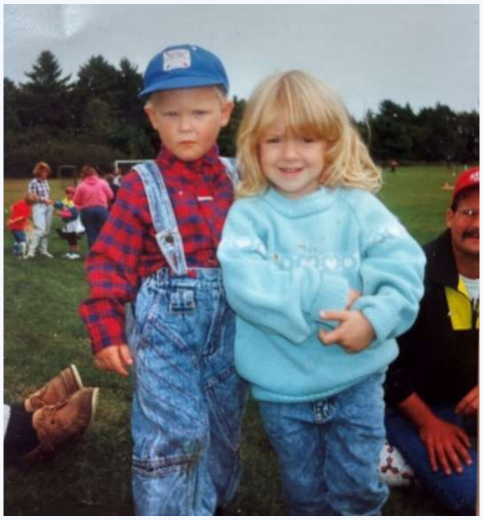


Exhibit A: Brett, age 4, Faded 19-pocket overalls

After years of mimicking my friends' clothing choices with little curiosity about developing my own style, I started to notice patterns that mirrored something I understand well: economics. Just as consumers allocate spending between stapled goods (food, household products, etc.) and discretionary goods (luxury items, concerts, etc.), fashion choices evolved with income, status, and economic conditions. Simply put, the way we dressed followed a progression, much like consumer behavior in the stock market.

However, technology and e-commerce have disrupted this pattern. Fast fashion, social media, and influencer culture have made it easier than ever to access the latest and greatest, which then blurs the lines between everyday clothing and luxury. Expensive brands used to be an obvious status symbol, but now, with digital marketing, trends are moving faster than ever. What we wear doesn't just signal financial status; but how quickly we can keep up with an endless cycle of must have clothes through viral ads.

Take designer handbags, for example. Back in the hay day, if you saw someone carrying one, you could safely assume they were either wealthy, had saved up for months, or a successful thief. Now, that bag could have been financed in 12 easy, interest-free payments, rented for an Instagram shoot, or is such a good dupe that would make the original designer do a double take. Thanks to fast fashion, it's extremely hard to distinguish between true luxury and a clever budget look.

This shift is personal to me because, while fashion has never been my strong suit, technology has been my playground. And, like most impatient millennials who embrace convenience, I've fallen victim to the ease of online shopping…often at odd hours and likely influenced by an algorithm that knows my wants better than I do. And, I'm going to stick my neck out and say that some Instagram ad that my friend will send me will influence my next order of vitamins.

So, with an infinite number of online platforms and hyper-targeted ads, shopping is no longer a conscious decision that involves budgeting and need, but more of a digital reflex with a few pointer maneuvers and clicks with the mouse. I'm sure we've all been there: one minute, you're looking at your stock app or scrolling through your Instagram feed, and the next, you own a new jacket – because, of course, that same algorithm I was talking about earlier, knew that your plane just landed in Chicago from Florida in the winter, and, the algorithm may be as smart as to know available points on your Amazon account.

To take it a step further, let's not forget about the power behind advertising. I'm sure I'm not the only one who's thought, "Maybe I do need these limited-edition sunglasses made of recycled paper". But, at this point, with all the money I've spent on gas stations or fast fashion sunglasses, I could own 4 pairs of indestructible Gucci frames (not that it would matter, because 1) I do not own them, and 2) there's a good chance they'd end up lost, anyway).

But beyond the impulse buying and algorithm-driven trends, fashion operates on a much larger scale…one that mirrors consumer confidence, discretionary spending, and even economic cycles. It's not just about what we wear; it's about what our spending habits reveal. Fashion has long served as an economic indicator that offers insight into how people allocate their money in both boom times and downturns, even despite the technological advancements of modern times.

Fashion as an Economic Indicator

Now, I wasn't around when this was coined, but there's an old common saying that you could tell the state of the economy by "looking at the hemlines". Meaning, that shorter skirts were worn in booms, and longer ones in downturns…and, tracked by an imaginary "Hemline Index". While this index is more myth and less data/ruler-driven, the point is that fashion undeniably reflects consumer confidence, discretionary spending, and broader economic cycles.

Let's take luxury fashion, for instance. High-end brands like LVMH (Louis Vuitton Moët Hennessy), Kering (Gucci, Balenciaga), and Hermès have historically served as reliable economic barometers. When their company earnings soar or beat expectations, it signals that the wealthy consumer, and, increasingly, the aspiring middle class, are feeling confident. When those sales decline, it often foreshadows broader economic uncertainty. But, even in downturns, brands like Hermès often remain resilient due to the ultra-wealth clientele, whose spending habits are pretty much insulated from the everyday economic turbulence. On the other hand, more price-sensitive luxury brands may struggle as the aspiring middle class buyers decide to tighten the belt-strap.

At the other end of the spectrum, fast fashion (…think Zara, H&M, and Shein) thrive in different economic conditions. These specific brands cater to consumers who still want style but need affordability. Fast fashion, historically, has surged in periods of inflation or economic slowdowns when people still want the dopamine hit of "new," but without the eyeball popping price tag. Interestingly, while luxury brands flex their muscles with pricing power and exclusivity, fast fashion relies on volume, speed, and trend-chasing. As we would like to say in economic terms, it's a mere battle between premium pricing (wider margins) and economies of scale (often w/ smaller margins).

But then, what happens when even fast fashion isn't cheap enough? Well, I'm sure you know where to go, but this is when secondhand marketplaces like Depop, Poshmark, and RealReal come into serious play. This is where buyers and sellers have turned resale into a billion-dollar business. In a way, these platforms can serve as their own economic indicators…when the secondhand luxury market booms, it can signal financial caution (people selling off items for extra cash) and/or shifting values (a younger generation favoring sustainability over brand-new luxury).

Fashion in the U.S. vs. Globally

Lately, with my growing intellect (admittedly late-blooming) in the fashion landscape, I couldn't help but connect an important behavioral finance concept called 'the home country bias'. In investing, *the home country bias* is defined as the tendency for individuals to favor domestic companies and assets in their own country over international investments, even when they offer better risk-adjusted returns, and can often lead to a lack of diversification. This bias typically stems from a familiarity bias, a desire to avoid currency risk, and a sense of patriotism (or, national loyalty).

So, then, why am I tying this behavioral finance concept to fashion? Well, much like US investors stick to US stocks and what they know, fashion choices are heavily influenced by cultural norms and regional preferences. The U.S., for example, loves its consumerism, but its approach to style operates on a different wavelength than most of the world.

One, in America, casual has been supreme. The rise of athleisure in the US, fueled by mega-brands like Nike, Lululemon, and Adidas (…amidst many new entrants that will have a tough time competing with this established moat) became the staple in the U.S. wardrobe…accelerated by the pandemic but primarily rooted in America's obsession with "performance" apparel. Take a walk down State St. or Jefferson St. in Chicago in the U.S., and you'll mostly see sneakers, leggings, and oversized hoodies as the standard wear. Go to the Loop or business district in Chicago, and you'll notice that we've ditched the suit and tie for more breathable athletic fabric and throat comfort. In contrast, a similar stroll through cities like Milan or Paris can feel like stepping onto the set of a fashion show with tailored coats, structured handbags, and polished leather shoes that are more of the norm. In many European cities, looking impeccably put together is essential during work, dinner, or even a swift coffee run. Luckily, in the US we can get away with Lulu's at Gibson's.

But, with that said, fashion trends do travel. The "quiet luxury" movement…the minimalist, understated, high-quality pieces that iron out the logos, has gained traction both in the U.S. and internationally, which is starting to mirror shifts in wealth perception. In economic downturns, loud, flashy branding often takes a backseat to more discreet signs of affluence. If you are keen on brands, let's think of it as the difference between a giant Louis Vuitton monogrammed tote and a muted cashmere coat from The Row. They are both luxury items, but one whispers while the other one shouts.

The Bottom Line

Fashion is more than just self-expression or what's in style and where. It's about what's happening in the world around us and the intricacies that funnel from our economic pulse. Whether it's tracking the resilience of Hermès, the volatility of Gucci, or the rise in fast fashion…clothing tells a much larger story about disposable income, market trends, and consumer sentiment. Lastly, while I may not be the most fashion-forward person, I can appreciate the financial patterns hidden in the fabrics. Whether I'm analyzing a balance sheet or my own questionable late-night purchases, one thing is certain, fashion, like the markets, is always evolving.

NEWS YOU CAN USE

On February 28th, a rare planetary 'parade' saw Mercury, Venus, Mars, Jupiter, Saturn, Uranus, and Neptune line up in our night sky, creating a nice celestial display. Visible just after sunset, Venus stood out as the brightest, while Mercury and Saturn hovered low on the horizon, which was best seen during twilight. Uranus and Neptune required binoculars or a telescope - remaining elusive for the naked eye. This alignment is very infrequent, interestingly last seen in April 2024, but not expected again until 2040. Thus, this captivated skywatchers across the globe, and many of you perhaps had the chance to take a glimpse.

The long-lost tomb of Pharaoh Thutmose II was unearthed near Luxor, Egypt, recently marking the first major pharaoh discovery since Tutankhamun in 1922. It was first spotted in 2022, but only until a few weeks ago confirmed. Inside, archaeologists found faded wall decorations, ancient texts (such as Egyptian GPS for the afterlife), and alabaster vessels holding the pharaoh's name. Unfortunately, time and weather didn't do the place any favors and many items had already been moved for safekeeping (or looted…). Still, this discovery gives us a precious peek into the Eighteenth Dynasty.

As February 2025 wrapped up, we went through an unexpected warm spell spread across the U.S., which replace the earlier Arctic blasts with spring-like temps. Meteorologists credited this shift to North Pacific air masses pushing out the cold. Some cities saw record-breaking swings - Bismarck, ND, jumped nearly 90 degrees in a week, while Minneapolis saw a 63-degree rise. Southern states lounged in the 70s, while central and northern regions hit the 40s to 60s. Even the East Coast warmed up, with cities along I-95 reaching the 50s and 60s. This sudden change gave us a welcome break from winter, and, some necessary Vitamin D.

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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