



# Cornerstone

ASSET MANAGEMENT GROUP, LLC

Economic Indicators | January 2024 | By Kim W. Suchy

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At the beginning of 2023, the financial landscape was clouded with predictions of a U.S. recession. The Fed was active and invoked a series of sizeable interest rate hikes to combat inflation, concerns grew as borrowing costs escalated for businesses and consumers already grappling with various economic challenges. Market forecasts reflected this uncertainty, with many expecting very modest gains in the equity market which was a far cry from the SP500's 70-year average gain of 10%. Further, investor sentiment was weak following a 19% decline in the SP500 in 2022.

Despite the worrisome outlooks for 2023, the markets defied expectations, as we have witnessed a well-received and broad-based surge, while the economy has displayed resilience; at least for now. The Fed's conviction to raising rates has effectively curbed inflation and, perhaps most importantly, not disrupted the labor market, fostering consistent consumer spending and robust GDP growth.

Admittedly, in the first half of last year, we too at Cornerstone were concerned as short term rates were significantly higher than longer Treasuries suggesting a recession was imminent. We took positions in short Treasuries to provide respectable income while we waited for clearer, more positive, economic signals. The Fed certainly provided guidance later in the year indicating that inflation was approaching their 2% target, and this served as a catalyst to a 4<sup>th</sup> quarter rally. Gradually, we lifted our short Treasury position as rates drifted lower and redeployed the proceeds such that we participated in the broad-based rally. Patience has its virtues!

Looking forward, rather than fixating on a possible recession or economic hiccup, many economists are now shifting their focus to anticipating the timing of the Fed's potential interest rate cuts. The majority suggest three rate cuts in 2024 with the first likely in the Spring and two more shortly thereafter. The Fed will not want to take stimulative rate cut action anytime close to the election period. The Fed tends to avoid actions that might be interpreted as trying to favor a particular political party or candidate. Further, abrupt changes in interest rates right before an election might introduce uncertainty or instability into the financial markets. The Fed generally seeks to maintain stability and predictability in the economy, especially during sensitive periods like an election. We can, however, expect the Fed to maintain a "neutral" dialogue come the Fall of 2024.

Here is your look at developments in the global marketplace.

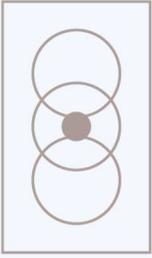




## POSITIVE DEVELOPMENTS

- November housing starts increased 14.8%, easily beating many forecasts. Housing starts now sit at a 6 mo. high, a sign that developers and buyers are establishing some equilibrium as rates have fallen and demand is increasing. Existing home sales increased 0.8% in November. The small gain in November ended a string of 5 consecutive months of declines.
- Higher federal income tax brackets and standard deductions will take effect Jan 1, 2024. The IRS announced the higher limits for the federal income tax bracket and standard deductions in November. The increase is intended to avoid "bracket creep," which happens when taxpayers are pushed into higher-income brackets even though their purchasing power is essentially unchanged due to inflation.
- The Conference Board reported an 8-pt. rise in consumer confidence. Stronger economic growth, falling gas prices, lower inflation, the promise of rate cuts, and robust financial markets combined to the surge in consumer mood.
- Headline Personal Consumption Expenditures (PCE) inflation fell 0.1% in November, as falling gasoline prices more than offset a smaller-than-expected 0.1% increase in the core PCE. On a yoy basis, the PCE inflation rate slowed from 2.9% to 2.6%, while the core rate slowed from 3.4% to 3.2%. This is rapidly approaching the Fed 2% target and gave investors a boost of confidence.
- Small-cap stocks had their best December in history, and their best month versus their large-cap counterparts since February 2000; a significant turnaround from their sluggish performance through much of this year. The Russell 2000 Index, made up of the 2,000 smallest companies by market cap in the Russell 3000 Index, has climbed 13% and logged its best December on record, according to Dow Jones Market Data.





## NEUTRAL DEVELOPMENTS

- Consumer spending was a bit lower this past month. The survey revealed 2.2% service consumption growth, down from 3.0% in the first revision, which reduced overall consumption growth from 3.6% to 3.1% and lowered the final Q3 GDP result from 5.2% to 4.9%. Still, a 4.9% GDP growth rate is reasonably sound.
- Since 1928 the market has averaged a 1.7% return between the last 5 days of December and first 2 days of the new year. Wall Street's sentiment toward equities has slowly become more bullish after the last Fed meeting with many viewing the Fed's language as signaling a dovish pivot. *Many refer to this late year rally as the Santa Claus rally.*
- Income grew a solid 0.4% in November and was revised from 0.2% to 0.3% in October, but consumption is slowing. It rose 0.2% in November, a tenth less than expected, and was revised from 0.2% to 0.1% in October. With income growth outpacing consumption growth, the saving rate rose from 4.0% to 4.1%. While nominal consumption was weaker than expected, real spending grew 0.3% and rose at a respectable 2.6% a/r in the 3 mos. ending in November. In fact, anything over 2% is believed too fast given the Fed's goal of slowing GDP growth to 1.8%.
  - Kelley Blue Book reported that the average purchase price of a new vehicle stood at \$48K in November 2023, a decline of more than 1.5% yoy basis. The average purchase price for luxury vehicles was \$63K in November, compared to \$44K for non-luxury brands. Prices for new electric vehicles have fallen substantially. The average transaction price for a new electric vehicle plummeted from nearly \$65K in November 2022, to \$52K in November 2023.
  - The number of active U.S. crude oil rigs stood at 498 on 12/21/23, down from 622 on 12/23/22, according to Baker Hughes. A total of 120 rigs were designated for natural gas compared to 155 a year ago. The price of WTI crude oil stood at \$73.89 per barrel on 12/21/23, down 5.62% on a year-over-year basis, according to data from Bloomberg. The price of natural gas stood at \$2.57 per million BTUs as of the same date, down 51.76% from when it stood at \$5.33 on 12/21/22.





## NEGATIVE DEVELOPMENTS

- Why were bond yields so high earlier in 2023? In the May 2022 baseline budget forecast, the CBO projected the deficit for FY 2023 to be \$980B. The actual budget deficit ending September 30th came in at just under \$1.7T suggesting a huge underestimate of over \$700B in financing needs for the federal government. Deficits are financed through Treasury issuance, and this significant increase in Treasury bond supply relative to estimates contributed to the move higher in bond yields this year. *This will be a huge 2024 campaign issue...the overall trajectory of the deficit remains unsustainable, and some degree of fiscal austerity will be needed in the years ahead.*
- 2023 is on track to be the warmest year on record, hurting natural-gas prices and discouraging skiers from hitting the slopes.
- Wealth taxes continue to be a political hot potato, with proposals being pushed on the national and state level... the U.S. Supreme Court is expected to soon rule on whether such levies are constitutional. The idea of a wealth tax has gained momentum in Washington, D.C., and some states.



## THE MARKETS

The U.S. equity markets were strong across all capitalizations and styles in December as the Santa Claus rally held true to form. From a sector perspective, Industrials, real estate, and consumer discretionary were market leaders while energy, consumer staples, utilities and communications were modest laggards.

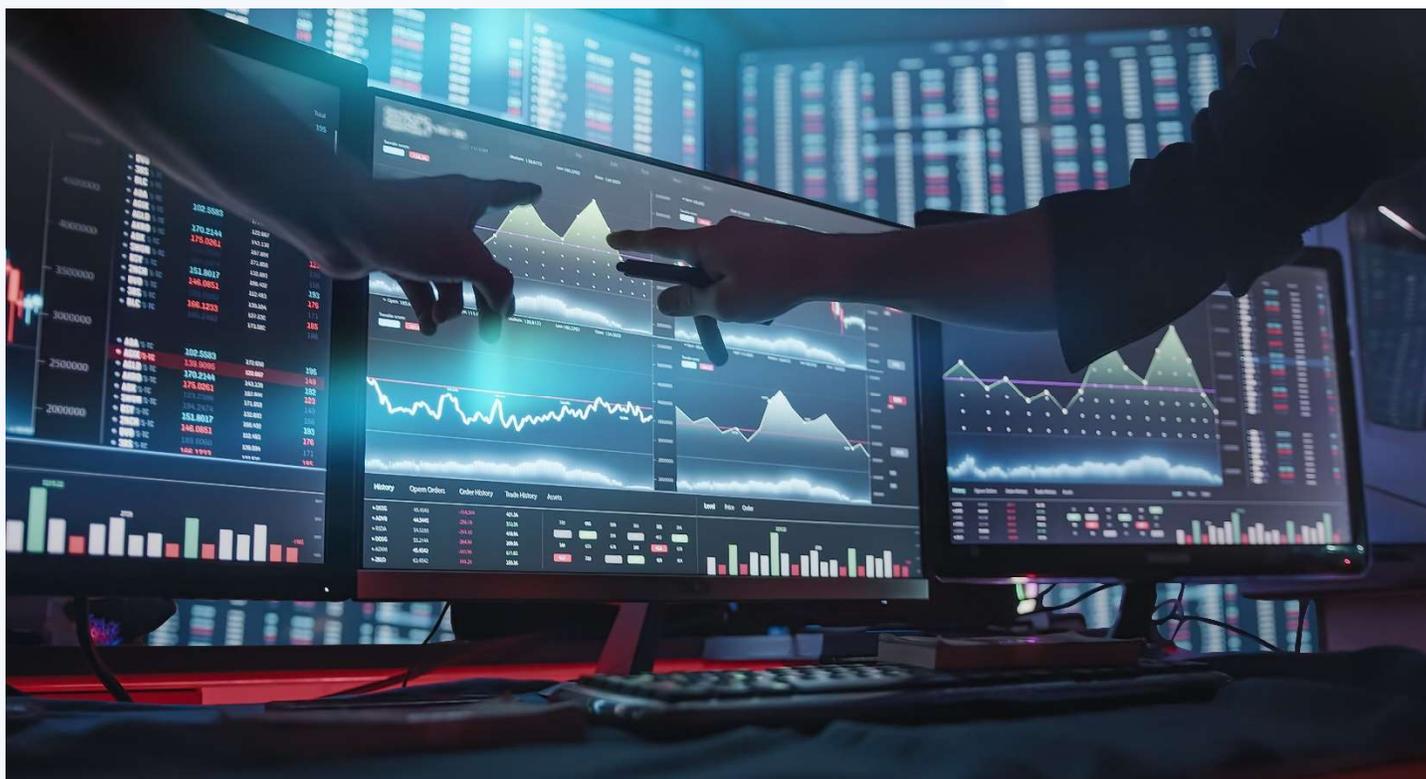
The European markets had respectable results last month with Germany, France, and U.K. markets all logging better than 3% returns. Asia was mixed with Japan and Hong Kong posting modestly positive returns while China finished in negative territory.

The Treasury market has seen yields across the curve plummet. The wide inversion between the 2-year Treasury and the 10-year Treasury is currently 41 basis pts. Which is flatter than at the beginning of 2023 (53 bps), suggesting that fears of recession are softening.



U.S Index	Last Month (% return)	YTD (%)
S&P 500	3.8	24.3
Dow Jones	4.0	13.7
NASDAQ Comp	4.9	43.4
Russell 2000	8.8	15.1

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



## Most Influential Person of 2023: Taylor Swift



The entertainment industry was rattled in 2023 with Hollywood on the sidelines for most of the year, but one entertainer in particular, Taylor Swift, was by no means on the sidelines (except for at the Kansas City Chief's games). If we may continue the football analogy, Taylor Swift's 2023 'performance' was one for the ages, starting at QB, she threw for 600 yards, rushed for 200 yards, and logged 8 total touchdowns. If she were at the tight end position, well let's just say, even Travis Kelce would be taking notes.

Every day this year it has been hard to dodge a Taylor Swift headline. If you don't read the news, well, she was all over the TV, radio, social media, movie theatres, concerts, stores, and recently, on the football field. I mean, she's everywhere and...what's not to like? Her voice, drive, intellect, personality, social responsibility, talent, beauty, and success are all things we yearn for, and these attributes have given a very large and diverse fan base something to aspire to. Her knack for transforming personal narratives into universal, relatable, and worshiped ballads and anthems, has everyone playing her jams, and she keeps collecting medals.

We have written about Taylor on several occasions this year as she surpassed certain milestones, and there were many... In 2023, she had 66 Eras tour dates, 44 songs on Billboard's Hot100 chart, 106 award nominations, on stage in 24 different cities, released 2 re-recorded albums, became the most streamed artist on Spotify with 26 billion streams, reached billionaire status, attended 8 Chief's games, and the list continues. Her Eras *tour* raked in over \$1 billion in revenue, her Eras *Tou film* brought in \$250 million globally, and the US Economy got a little boost due to \$5.7B in fan spending. In addition, the NFL has captured a whole new audience after Taylor went public about dating Kansas City Chiefs TE, Travis Kelce. Of course, this has had a positive economic impact on the league, particularly the Kansas City Chiefs, and has sent the number of Kelce's Instagram followers to the moon.

As of December 31<sup>st</sup>, she holds the top four titles on the Billboard's Top Album Sales and is tied with Elvis Presley for most weeks on top of the charts for a *solo artist*. Her albums in total have spent 67 weeks in the Number 1 spot and the New Year should tell us if she surpasses the King of Rock and Roll at this feat. She'll need to log another 65 weeks at the Number 1 to shatter the all-time record held by the Beatles with 132 weeks straight. To put it simply, Taylor Swift had a year for the record books, one of which has landed her Time's 2023 Person of the Year. Her musical talent, cultural impact and business acumen have set a standard few can match. She's a force to be reckoned with and has left us eagerly waiting for what she has in store for us in the years to come.



## NEWS YOU CAN USE

On December 11<sup>th</sup>, NASA successfully beamed the first video from deep space to Earth using red laser light. The video starred an orange cat named Taters who was eagerly chasing a laser beam and originated from a spacecraft positioned 19 million miles away. The entire video journey only took a mere 110 seconds. This technological demonstration signifies a significant leap in transmitting data at rate up to 100 times faster than the radio systems currently in use.

<https://apnews.com/article/nasa-laser-test-cat-psyche-space-d546e7e14acedb1464c279baf3c3eb68>

The Detroit Pistons of the NBA were defeated for the 28<sup>th</sup> straight game this season on Dec. 28<sup>th</sup>, tying them with the Philadelphia 76ers (2015-2016) for the most consecutive games lost in the league's history. The Pistons put up a fight against the 23-5 Boston Celtics but managed to lose a 21-point lead and were defeated in overtime. However, the Pistons managed to avoid the 29-straight-game loss outright record by squeaking out a 2-point victory against the Toronto Raptors on December 31<sup>st</sup>. The Pistons record is 3-29.

<https://www.cbssports.com/nba/news/pistons-blow-21-point-lead-vs-celtics-drop-28th-consecutive-game-to-tie-nbas-all-time-futility-mark/>

Actor Pierce Brosnan, aka James Bond, or 007, is facing criminal charges for walking in Yellowstone National Park's hydrothermal areas, which is a violation of federal law. Hot springs have been the prime suspect for injury or death in Yellowstone, so authorities restrict foot travel to trails in all thermal areas. Several violators in recent years have been criminally charged and/or banned from the park, facing up to 1 week – 10 days jail time and lofty fines. Bond appears in court on January 23<sup>rd</sup>. We wonder if Bond will get a bond.

<https://www.msn.com/en-us/tv/news/the-feds-charged-james-bond-actor-pierce-brosnan-with-trespassing-into-a-restricted-area-of-yellowstone-mountain-range/ar-AA1m7eai>

As always, if I can be of additional guidance, please feel free to call me at 312.485.6847.

Best regards,



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