



Cornerstone

ASSET MANAGEMENT GROUP, LLC

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

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Well, February was an interesting month. The market has surged on days when AI (Artificial Intelligence *not Accelerated Investments, ha*) related stocks reported favorable earnings. Even before Nvidia reported earnings in late February, Bespoke Investment Group reported that AI stocks had risen far enough to represent 10% of global market capitalization. Nvidia's better-than-expected sales and earnings report came in, along with strong guidance, and sent Nvidia and the broad market indexes higher.

The global Nvidia-led market rally was quite strong. Stock markets made new highs in Japan, Europe, and here in the U.S.. This was great for many larger capitalization growth and tech related indexes; however, it has created larger valuation disparities across larger cap value and smaller cap stocks. While this may frustrate many diversified investors, it has left some attractive opportunities over the longer term. There are still a lot of great earnings to look forward to in the value, mid and small cap segments, as easier year-over-year comparisons unfold over the next two quarters, then we'll see multiple Fed rate cuts, starting no later than June, plus the optimism of a Presidential election year.

There are still 10 months left in this Presidential election year, it could very well be that Wall Street will be about as wrong about the strength of this bull market as it was about calling for a recession. First, many market worriers are concerned that the market's price/earnings ratio (P/E) is too high. According to FactSet, "The forward 12-month P/E ratio for the SP500 is 20.4. This P/E ratio is above the 5-year average (19.0) and above the 10-year average (17.7)." When we strip out the Magnificent 7 and FAANG stocks, the SP500 is trading at a 15! Thus, the balance of the of the market is far from being overvalued and there is plenty of room for this market to broaden out.

Certainly, a handful of mega-tech stocks have provided a significant amount of octane for the market. However, this past month, we saw some strong participation in the industrial, consumer discretionary and health care sectors demonstrating that the market is trying to broaden out. We may very well see further gains for stocks, particularly if we see inflation levels retreating and Treasury yields trekking lower.

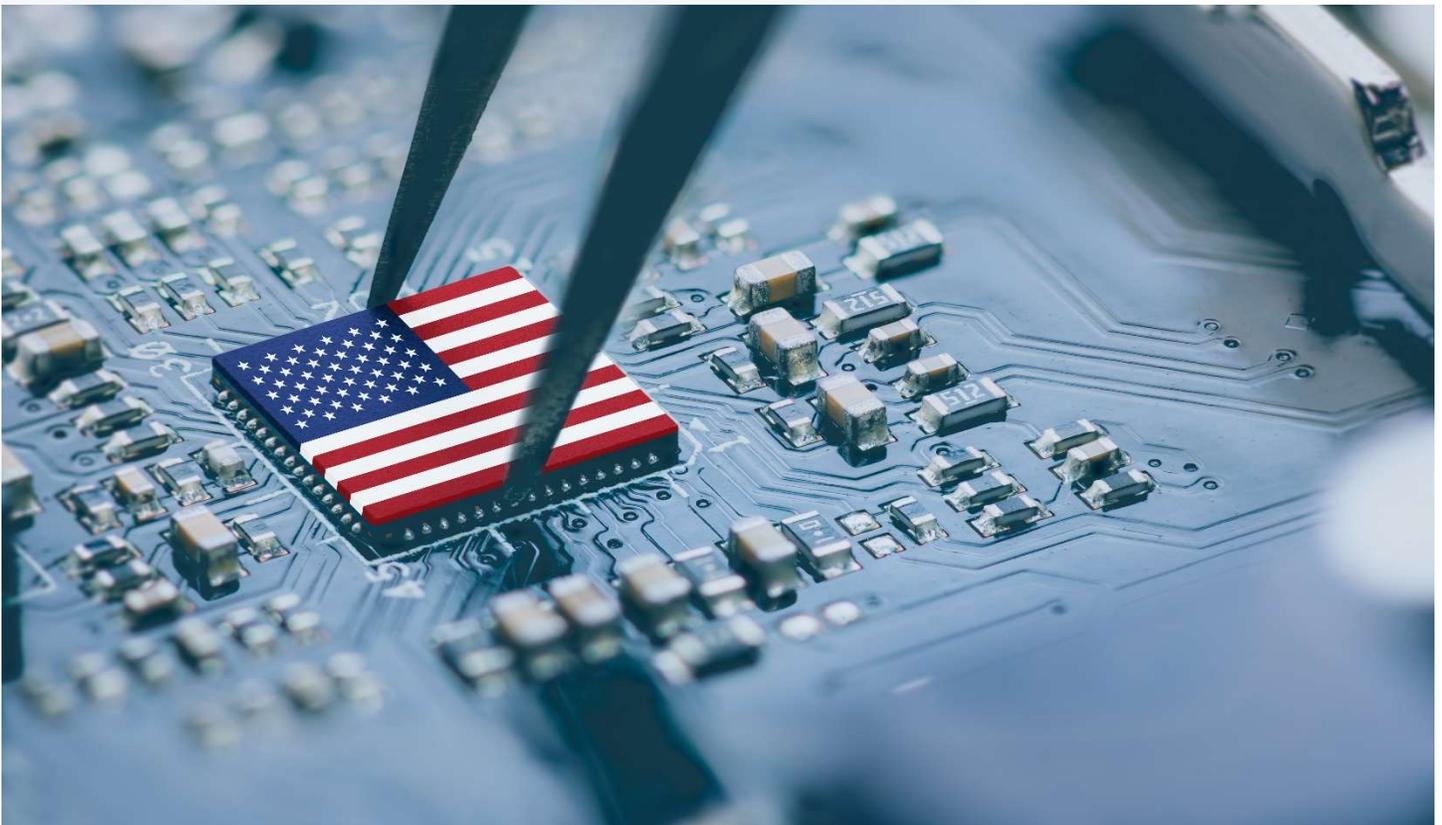
Here is your look at developments in the global marketplace.

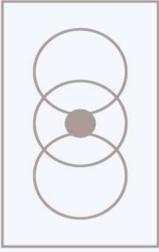




POSITIVE DEVELOPMENTS

- Existing home sales started 2024 on a healthy note, rising 3.1% in January. It looks like sales activity is finally stabilizing after 2 years of declines. While one month doesn't make a trend, the positive news is that the most significant headwind for the housing market is beginning to wane. Movement towards the 2% Fed inflation goal and rate cuts has led to a decline in interest rates across the board.
- The Japanese equity market, Nikkei, is surging as Japan is emerging as a partner with the US on many fronts, including cutting edge technology (AI) in part because it is an economically viable alternative and more friendly to US interests than China.
- Owing to strong demand for AI-related semiconductors, there is a significant rebound in overall semiconductor sales. Semiconductors were in a slump over 2022 and early last year due to overbuying and overinvestment during the post-Covid supply chain imbalances which resulted in inventory overhangs and a period of weak demand. Nvidia is the poster child here.
- DataTrek Research reports that they highlighted that the SP500 has climbed 31% in the last 3 years on a price return basis, which is close to the index's long-term average (approximately 10% per year). Stock market bubbles from the last 5 decades, on the other hand, have always peaked at 100% or more for 3-year gains on a price return basis. Thus, we are far removed from bubble territory.
- Carl Tannenbaum, Chief Economist at Northern Trust, reports that slowly, but surely, pricing leverage is returning to consumers. Supply chains have healed, while the supply of labor has improved. Many households have exhausted the excess savings amassed during the pandemic, and wage increases have struggled to keep up with inflation. A renewed frugality has set in, and surveys of pricing power reflect it. All this helps to hold inflation at bay but may squeeze profit margins at companies.





NEUTRAL DEVELOPMENTS

- Surveys are discovering that many workers retire earlier than planned. A new study from Allspring Global Investments reported that 37% of respondents retired sooner than expected. The 2023 Employee Benefit Research Institute/Greenwald Research Retirement Confidence Survey found 46% retiring earlier than planned. Many are accelerating savings plans ahead of planned retirement.
- Investors were a bit giddy and greedy late last year as reflected in the rapid decline in bond yields in anticipation of several (6+) Fed rate cuts. Lately, the bond market is leaning towards reality, with the 6+ cuts priced in mid-January to now just 3.3. We have also seen the beginning of these cuts pushed out from March to June.
- Consumers are certainly demonstrating where they choose to spend their money. On the one hand, Walmart reported that same-store-sales (excluding fuel) were up 4.0%, y/y in fiscal Q4 while Home Depot's fiscal Q4 same-store sales fell 4.0%. Much of the disparity could be attributable to higher interest rates. People will allocate to a loaf of bread vs. home improvement at this point.





NEGATIVE DEVELOPMENTS

- While artificial intelligence (AI) is taking the tech sector by storm, there is reason to be concerned. While AI sounds intelligent, it isn't so much. As more credible disinformation spreads across the Internet, it's bound to cause trouble. We trust that its creators have their eyes on the ball... Nvidia has cornered the market on the GPU chips that enable AI. Last week's earnings release and outlook suggest AI has no boundaries.
 - *Yardeni Research quips, "AI is artificial but hardly intelligent. It is basically a statistical probability model that can digest huge amounts of information from the Internet but lacks the ability to recognize and correct its own mistakes, which is a key attribute of intelligence".*
- Durable goods sank 6.1% in January, almost entirely because Boeing signed very few airplane contracts. Economists had forecasted a 5% decline.
- There are signs the global economy may be slowing. Global industrial production rose 2.5% y/y in 2023 while the volume of exports rose only 1.2%. Both are somewhat anemic. In addition, commodity prices remain weak. The price of crude oil remains relatively flat despite the conflicts in the Middle East which normally would have boosted prices.
 - *Note, Japan's population is getting older faster. Further, couples in Japan are not having enough children to replace themselves. Without young people to support the population and social programs, a chronic labor shortage has emerged. If there is a positive here, the weakened economy has reduced the value of its currency, stimulating external demand and raising corporate profits for Japan's global companies relying on exports.*
- Consumer confidence was sluggish in February, as both the current conditions and expectations measures dipped. According to Dana Peterson, chief economist at The Conference Board, "The decline in consumer confidence in Feb. interrupted a 3 mo. rise, reflecting persistent uncertainty about the US economy. The drop in confidence was broad-based, affecting all income groups except households earning less than \$15K and those earning more than \$125K.



THE MARKETS

The U.S. equity markets were modestly higher in February. Consumer discretionary, industrials and health care sectors were positive contributors to market returns while interest rate sensitive sectors real estate and utilities were laggards. In addition, energy was once again another market laggard.

The European, Japanese, and Chinese markets all had strong performance in February. In fact, all these markets outperformed the U.S. equity markets.

Treasury prices have settled into a sideways path over the last several weeks which seems justified after good US data has been followed by disappointing US data. However, expectations for a rate cut in April or May are virtually nil with expectations for a June cut a good possibility.



U.S Index	Last Month (% return)	YTD (%)
S&P 500	3.5	6.8
Dow Jones	1.4	3.5
NASDAQ Comp	3.8	7.2
Russell 2000	2.8	1.3

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



Topic of the Month: Weight Loss Drug Industry



The rapid ascent of the weight loss drug industry has been no secret. Lately, there has been no shortage of conversation on this topic, and the eye-popping growth, drugs sales, and of course, the physical results, gives this subject some energy.

The introduction of drugs like Wegovy and Mounjaro certainly marked a momentous shift in the battle against obesity and more. These drugs, which were initially developed for type 2 diabetes, acutely suppresses appetite (causing you to feel ‘full’) and can lead to substantial weight loss. With one-third of US adults struggling with obesity (a condition that makes you more susceptible to life-threatening issues such as heart disease, diabetes, and cancer), these drugs could pack a serious punch in the battle against this public health crisis.

Still, their long-term health impacts remain uncertain, with common side effects including nausea and the requirement for lifelong use to maintain weight loss. In addition, the drugs are not cheap and are often not covered by insurance. Ozempic and Wegovy cost an average of \$1,116 per month or \$13,397 per year.

With such a swift change in the landscape, there was bound to be some industry shake-up. On February 29th, Oprah Winfrey announced her resignation from the Weight Watcher’s board. This followed her disclosure late last year that she has been using weight-loss drugs highlighting a broader acceptance and reliance on these treatments. She told People’s Magazine, “I now use it as I feel I need it, as a tool to manage not yo-yoing. The fact that there’s a medically approved prescription for managing weight and staying healthier, in my lifetime, feels like relief, like redemption, like a gift, and not something to hide behind.”

The expansion is just getting started. Riding the Wegovy, Mounjaro, and Ozempic tailwinds, the FDA recently approved Eli Lilly’s Zepbound for obesity in November 2023. There are roughly 70 new other treatments in the pipeline and six others awaiting regulatory review, underscoring the industry’s potential expansion and financial prospects.

[Weight-loss drugs: 10 Breakthrough Technologies 2024 | MIT Technology Review](#)

[Oprah Winfrey Reveals She Uses Weight-Loss Medication: ‘I’m Done with the Shaming’ \(people.com\)](#)



NEWS YOU CAN USE

This month, Patrick Kane, the Blackhawks legend, and future Hall-of-Famer, returned to the United Center for the first time in an opponent's uniform. In the first period, after a video tribute of Kane, Chicago & Red Wing fans united for a 3-minute standing ovation that could be heard in San Francisco. Kane then proceeded to showcase why such a figure gets a 3-minute standing ovation...he assisted the tying goal in the third period, and with no surprise, capped off the game with a breakaway top shelf winning overtime goal. There was not a dry eye in the crowd.

<https://www.msn.com/en-us/sports/nhl/patrick-kane-scores-ot-winner-in-1st-meeting-vs-blackhawks/ar-BB1iSCTt>

This month the first U.S. spacecraft since the Apollo 17 manned mission in 1972, landed on the moon. The lander, Odysseus, carried six experiments for NASA who had forked over \$118M for the ride. However, upon touchdown on the moon, Odysseus broke a leg, which led to it falling on its side one week later. To preserve anything that it has left, if anything at all, Odysseus has been put "down for a long nap." There are several private landers and functioning satellite programs that NASA plans to use to help prepare for astronauts to arrive in a few years.

<https://apnews.com/article/moon-landing-odysseus-intuitive-machines-4d9503fad4e1454204a27f583ccfac45>

The US Food and Drug Administration is allowing yogurt sold in the US to make a limited claim that it may reduce the risk of type 2 diabetes of which affects roughly 36 million Americans. The FDA has allowed qualified health claims, without significant scientific support, for dietary supplements and foods for over two decades. The FDA in the past has allowed similar claims for whole grains limiting the risk of diabetes and consuming some types of cocoa may reduce heart disease.

<https://www.msn.com/en-us/health/other/us-fda-allows-new-claim-that-yogurt-may-reduce-diabetes-risk/ar-BB1jbbSq>

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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