

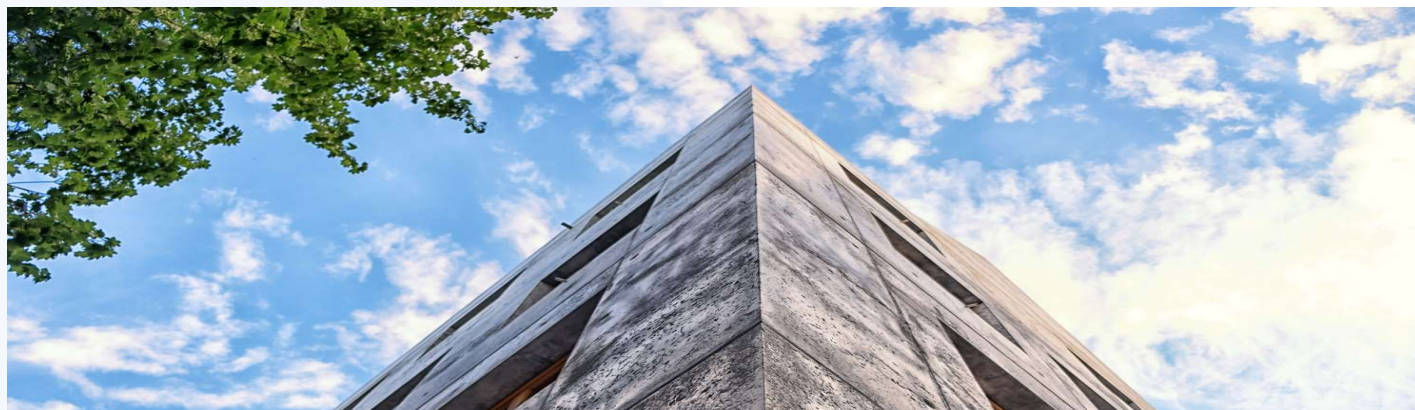


# Cornerstone

ASSET MANAGEMENT GROUP, LLC

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

[www.csamg.com](http://www.csamg.com) | [Kim.Suchy@csamg.com](mailto:Kim.Suchy@csamg.com) | [Brett.Suchy@csamg.com](mailto:Brett.Suchy@csamg.com)



Many investors, particularly in the commodity circles, have focused on gold which continues to set record high prices in 2024. It's safe-haven feature, in a world full of geopolitical concerns, makes gold a must have. Yet gold isn't the only commodity experiencing a surge in price. Due to events that have impacted global and domestic supply and demand, copper and silver are also seeing new highs on a regular basis.

We can readily attribute gold's price gain due to its store of value during periods of heightened inflation yet why are we seeing the surge in copper and silver? These two commodities have historically experienced price increases during periods of robust global economic growth. Well, the plow horse economies around the globe do not provide enough giddy-up to generate the price increases we are seeing in copper and silver. So, let's look under the hood.

With respect to copper, demand for the metal in China and the U.S. is climbing as the primary driver is the green energy movement which looks to be a sustainable long-term trend. Beyond copper's traditional use in home electrical wiring and plumbing, copper is now a key component in solar panels, wind turbines, EV charging cables and EV charging stations. In fact, Kelley Blue Book reported that in 2023 a record 1.2M EVs sold, making electric vehicles the fastest-growing car category by sales. Further, U.S. Energy Information Administration reported that last year, electric generating capacity from renewable sources surpassed both coal and nuclear and should be close to matching the capacity of natural gas by 2025. Thus, the demand for copper continues to grow and the forecasts for use continue to broaden which together provide a healthy backdrop for the price of copper.

Let's look at silver. While gold set an all-time high last month, silver has outperformed gold of late, yet silver remains 40% below its all-time high. The current trajectory of silver prices may very well continue as the demand for the metal continues to outpace supply. Silver and its alloys are integral to the manufacture of batteries, LED chips, medical equipment, nuclear reactors, solar panels, semiconductors, cellphones, and touchscreens. According to the most recent survey from The Silver Institute, demand is expected to reach 1.2B ounces this year, which would mark the second highest level on record.

Silver, like gold, is also viewed as a safe-haven that performs well during periods of geopolitical unrest. With tensions elevated in the Middle East and no apparent conclusion in sight for the Ukraine/Russia conflict, the price of silver, has increased over 30% since Hamas attacked Israel.



While all this commodity pricing may appear inflationary, it is not. Why? China's economy is very sluggish. Thus, the Chinese government has decided to offset the collapse of its property sector by stimulating the country's manufacturing for export of green technologies which require a range of industrial commodities to produce. Their production processes are cheap, and China can supply and corner many of the end users of green technologies keeping the cost of product relatively inexpensive. Many would argue that this amounts to government subsidized dumping others would argue that this is deflationary.

Here is your look at developments in the global marketplace.

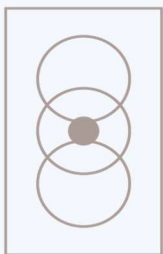
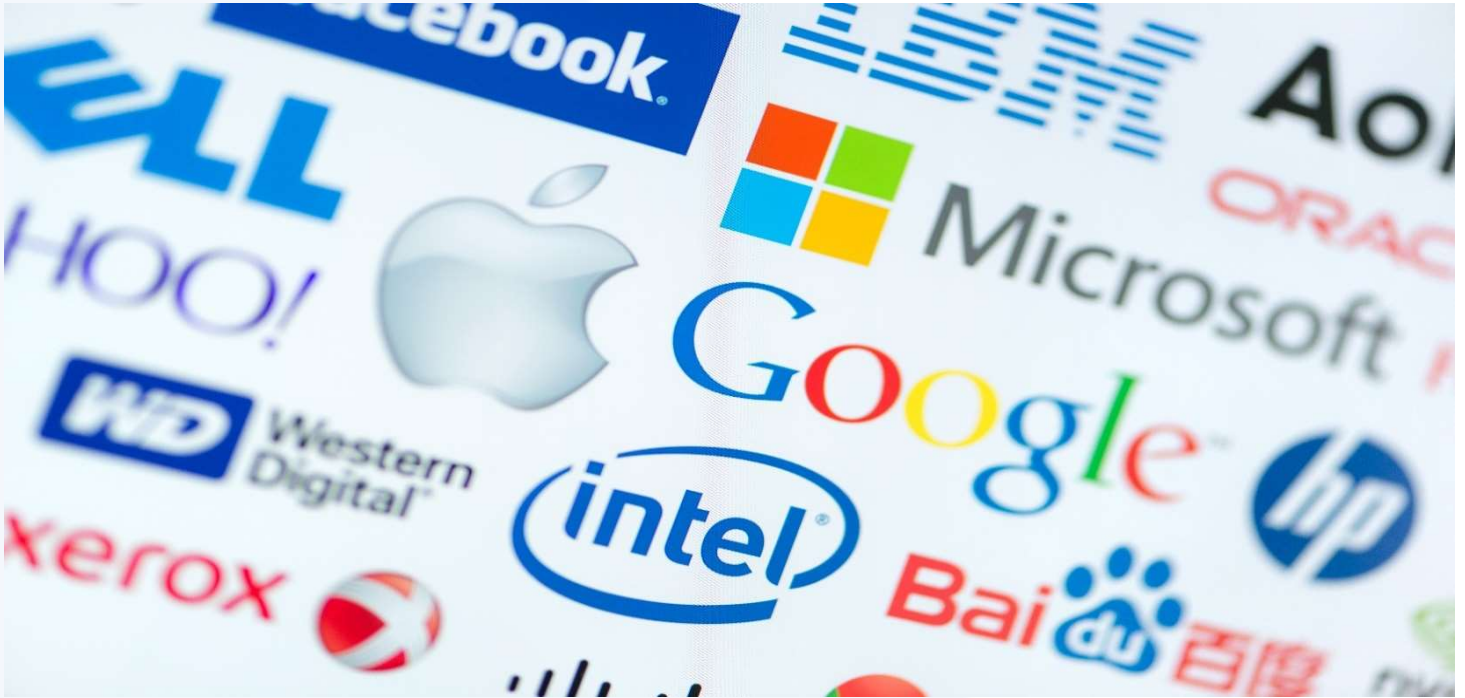


## POSITIVE DEVELOPMENTS

- Despite the recent market volatility, there has been a broadening of market participation. Rotations are happening under the surface, with technology sector strength becoming narrower, while cyclical sectors like industrials, materials, energy, and financials are improving.
- The MegaCap-8 group of stocks (i.e., Alphabet, Amazon, Apple, Meta, Microsoft, Netflix, Nvidia, and Tesla) continues to perform better than the S&P 500 this year, although Tesla has been very weak. On a year-to-date basis, the group is beating the index's return and when the MegaCap-8 outperforms the index, the index's performance is strong. That's because the Mega-Cap-8's aggregate market capitalization of \$13.7T accounts for 27.4% share of the S&P 500's market capitalization.
- According to LSEG Datastream, personal interest income soared to a record \$1.82T a/r during February. Over the past 2 years, it is up 17.4% or \$270B. To be balanced, personal nonmortgage interest payments totaled \$0.52T a/r. So higher interest rates have boosted consumers' income, but not much more than it has their (nonmortgage) interest payments. However, the latter is rising partly because consumers are borrowing more to spend more.
  - The major beneficiaries of higher interest rates have been older American households, especially the Baby Boomers and GenX. At the end close of 2023, they had \$8.2T and \$4.2T in deposits and money market funds. The Millennials had only \$2.0T in these assets according to the Fed and LSEG Datastream. Should rates ease, we will see a considerable flow of these monies into the equity markets.
- New home sales came in stronger than expected in March, driven by broad-based gains as more inventories give buyers a greater number of options to choose from. The key point is the 8.8% gain in March was the largest in more than a year. Sales are up 8.3% from a year ago. A strong job market and some favorable builder financing have bolstered sales.



- Job growth continues in April. New claims for unemployment insurance declined 5K in the last week of April to 207K. Continuing claims dropped 15K to 1.8M.
- With 46% of SP500 companies reporting, results have generally been better than expected. Of those companies, 77% have reported a positive EPS surprise returning a blended earnings growth rate of 3.5% year-over-year according to FactSet. Last week 2 big names, Microsoft and Google, had excellent reports and nudged the indexes higher.



## NEUTRAL DEVELOPMENTS

- Treasury yields remain in a relatively narrow range, where a break in either direction sends an important signal to the broader markets. A break higher could suggest stronger growth, higher inflation, and a challenge to the Fed's easing plans. A break lower could suggest weaker growth, lower inflation, and the Fed taking a step forward on rate cuts.
- The Fed's "higher for longer" predicament has revealed a sharp divergence between policy in the U.S. and around the globe. While other central bankers have initiated cuts or have signaled imminent cuts to come, thanks to moderating inflation and/or flagging growth, the Fed remains tight at this time. Any movement to cut outside the U.S. forces the Dollar higher, reduces export competitiveness, and make imports cheaper, which, in turn, causes the trade deficit to widen further.
- China is now diversifying its production footprint by establishing new branches in Mexico. This strategy, often referred to as "nearshoring," has gained momentum in recent years. While proximity to the lucrative US market translates to savings on shipping costs, Chinese companies are circumventing tariffs, which can be up to 25% on goods imported from China to the US...a plus to China, particularly amid escalating trade tensions.
- The dollar surged to a fresh 34-year high on last week, bolstered in part by U.S. inflation data that showed no signs of easing. The dollar index was up 0.3% at 105.93. This hurts U.S. exports as prices are higher to foreign buyers.





## NEGATIVE DEVELOPMENTS

- The Russell 2000 Index has seen its relative outperformance from 4Q23 reverse in 2024, with the index now back to its relative lows from November 2023. This index is now oversold on a technical basis (using the Relative Strength Index), setting it up for a nice potential recovery. If the rebound is powerful, then it could be a sign of a renewed risk appetite and optimism; however, if the rebound is weak, it could be a sign of a continued risk off mood.
- The demographic profile of the US housing market is weak. Over the past 2 years, the rapid rise in mortgage rates forced many potential first-time buyers to continue renting. The affordability problem deepened by rising home prices due to a shortage of existing homes available for sale. That was due, in part, to many homeowners refinancing mortgages at record-low interest rates and now deferring their move and financing their new purchase at significantly higher rates.
- Leading Economic Indicators (LEI) fell in March after touching positive territory in Feb. The LEI slipped 0.3% in March after increasing 0.2% in February which was its first monthly gain since February 2022. According to the Conference Board, “Overall the index points to a fragile—even if not recessionary—outlook for the US economy.” They warn that rising consumer debt along with elevated interest rates and persistent inflationary pressures continue to post risks to economic growth.
- GDP growth came in surprisingly slow in the Q1, growing at a lukewarm 1.6% annual rate versus a consensus expected 2.5% pace. That 1.6% rate is the slowest growth rate since Q2 2022 and lower than the forecast from any economics group on Bloomberg.



- March PCE inflation rose 0.3% headline and core, as expected. However, inflation is still way too high. There was an upward revision to January PCE inflation, mostly in the core. February was unrevised and March rose as expected, meaning that January price increases stuck, lifting the whole quarter as a result. If there is a silver lining, it is February and March inflation lower than January's. Unfortunately, it is tarnished as the March rise was bigger than February's. Still, the Fed does not like this as PCE remains stubbornly high.
  - With the core PCE index rising 0.3% in the month of March and GDP slowing, the combination of slowing growth and rising inflation isn't the recipe for a healthy economy and these reports should further push back any potential rate cuts this year. According to CME's *FedWatch* tool, the futures market is now pricing in a rate cut in September at the earliest. Before these the inflation and GDP reports, June was widely believed to be the kickoff point, but those hopes are now gone.



## THE MARKETS

The U.S. equity markets retreated in April on news that inflation remains stubbornly high, labor costs are mounting, and the Fed is not likely to cut rates in the near term. Energy, utilities, and communication services were leaders in the performance derby while health care, real estate and financials were laggards.

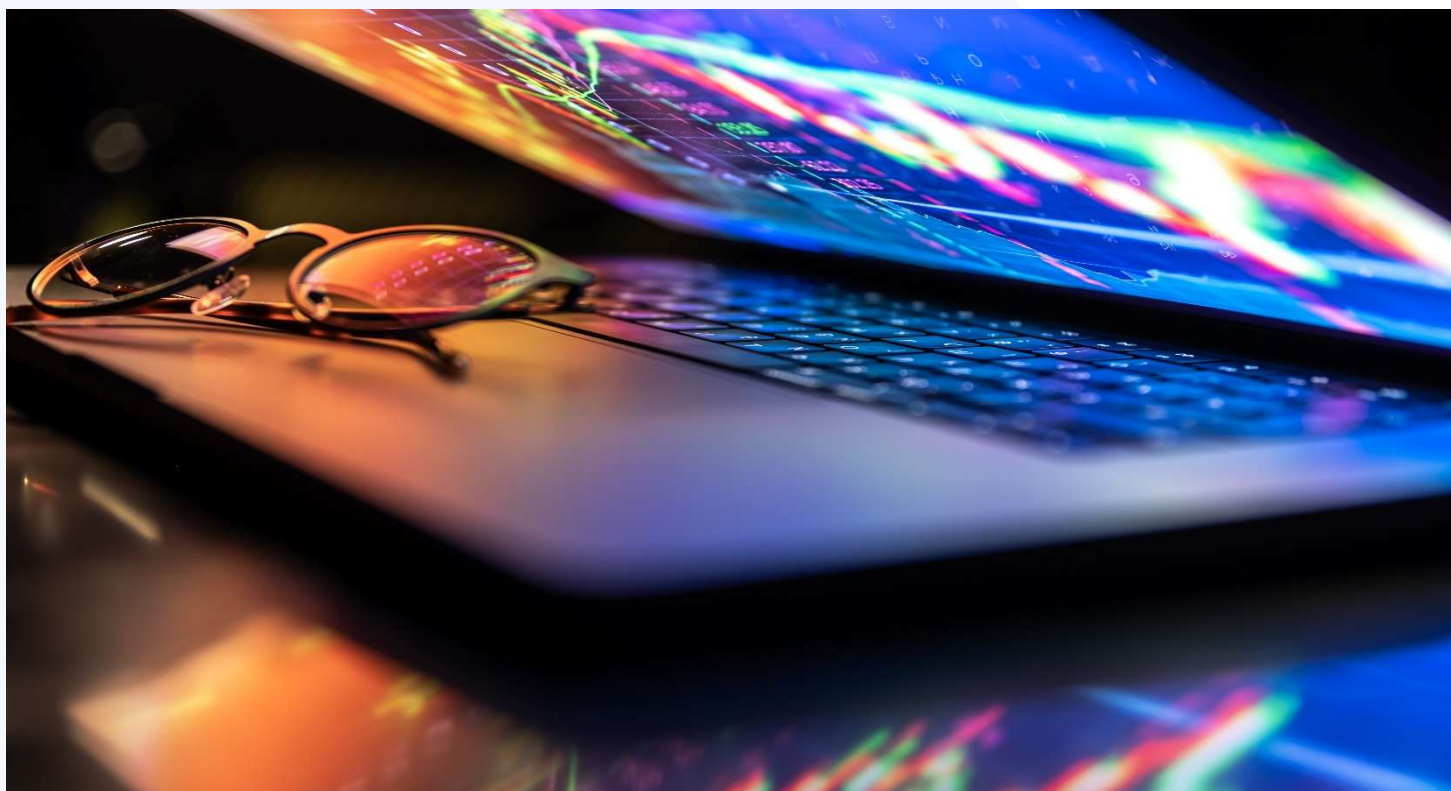
In the global arena, European stocks were relatively strong in April as the European Central Bank is about to embark on lowering their interest rates, giving stocks a boost. The Asian markets were mixed as the MSCI Asian Index (ex-Japan) logged another monthly gain making this the third consecutive monthly gain. Japan posted a negative 3.2% return last month despite a weakening Yen which supports its exports.

The US 10-year Treasury note yield is hovering in the 4.65% range after reaching its highest level since early November of 2023. The Fed is expected to maintain interest rates at 5.25%-5.50% and reiterate that borrowing costs will not be reduced until policymakers are confident that inflation is moving toward its 2% target.



U.S Index	Last Month (% return)	YTD (%)
S&P 500	-4.2	5.6
Dow Jones	-5.0	0.3
NASDAQ Comp	-4.4	4.3
Russell 2000	-7.1	-2.7

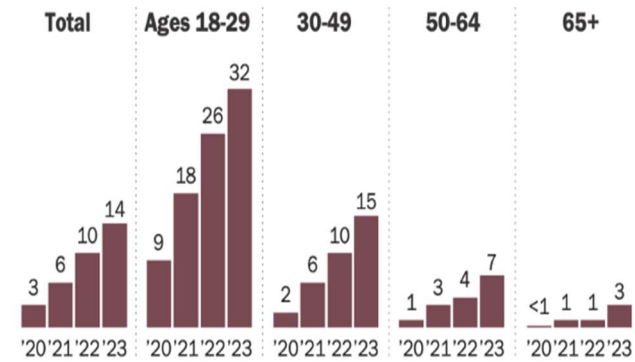
Source: <https://tradingeconomics.com/stocks>



## Topic of the Month: TikTok's Grip on the US & Potential Ban

### About a third of U.S. adults under 30 now regularly get news on TikTok

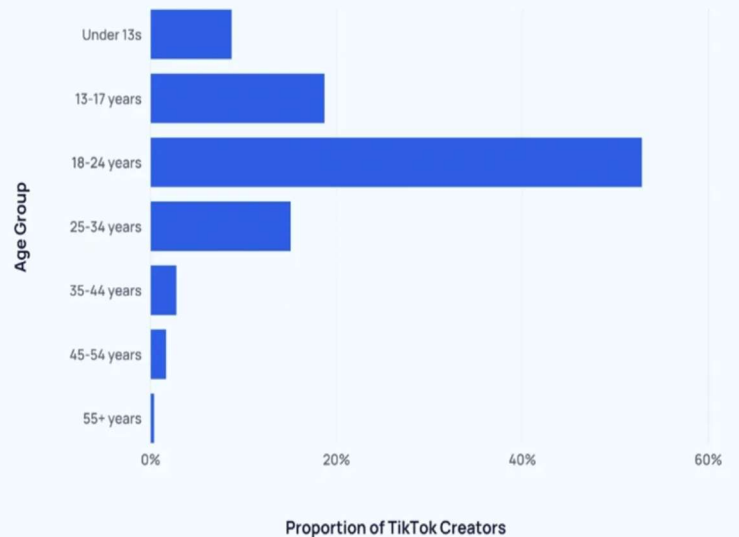
% of U.S. adults who regularly get news from TikTok, by age group



Source: Survey of U.S. adults conducted Sept. 25–Oct. 1, 2023.

PEW RESEARCH CENTER

### Most Popular TikTok Creators by Age Group



Source: [Pew Research - Americans Getting News](#)

Source: [What's The Big Data - TikTok Statistics](#)

TikTok, as many as you know, has been the latest and greatest social media platform, mainly among Gen-Z, but has captured, to some extent, most generations. The video-sharing platform, launched in 2017 and owned by Beijing-based technology company ByteDance, was the darling app of 2023 worldwide, landing a \$200B valuation while other forms of social media temper with growth concerns. According to Statista statistics and fact, ByteDance racked up \$30B in revenue from the U.S alone, and now accounts for 170M American users.

The social media platform has been under major scrutiny amongst Washington for some time, with concern that the Chinese Communist Party is using the app to spy on Americans and influence US users. Chinese national intelligence laws require ByteDance to fork over all data on Americans, if sought, however TikTok claims they have not received such a request...

On Wednesday, April 24<sup>th</sup>, included inside a national security package for foreign aid to Israel, Ukraine, and Taiwan, and signed into law, was a provision that could possibly ban TikTok...with a catch. ByteDance is given 9 months, with one presidential grant to extend the prohibition another 3 months, to sell the company or face a nationwide ban in the US. The earliest the ban could start is January 2025. Soon after the bill was signed, TikTok CEO, Shou Zi Chew, was immediate to comment that they have no plans to sell the company, and quoted "Rest assured, we aren't going anywhere." In addition, the Chinese government has signaled they will give no approval on a sale and has put an export control regulating the company's algorithm.

The legislation, which marks the first time the US has passed a law that could prompt the ban of a social media platform, has been disputed amongst civil liberties groups and constitutional scholars on whether TikTok's argument that the bill has compressed the right to free speech is valid. However, it seems that national security is of the utmost importance and ByteDance faces an uphill battle...a battle that could potentially play out in court for years. Given the reach it has on Americans, especially the younger generations, Washington is serious on the risk of privacy and mental health. However, there's much debate on whether data privacy should be addressed with comprehensive legislation encompassing the whole tech industry, rather than just one company. Nevertheless, the tech battle with China seems never-ending.

[Reuters - TikTok Raises Free Speech Concerns on Bill That May Ban App](#)

[NPR - Biden's Ban on TikTok](#)



## NEWS YOU CAN USE

This month, Guinness World Records coined John Alfred Tinniswood, a 111-year-old from Liverpool, as the world's *newest* oldest man. Born just a few months after the sinking of the Titanic, Tinniswood has witnessed two world wars and served in the British Army Pay Corps during World War II. So, what's his philosophy on longevity? His main advice is to practice everything in moderation (i.e. drinking, eating, and even walking), though he attributes his extended lifespan mainly to "pure luck," commenting, "You either live long or you live short, and there's not much you can do about it." Meanwhile, the world's oldest woman and person belongs to Maria Branyas Morera of Spain, who is 117 years and 2 months old.

[Guinness World Records - World's Oldest Man](#)

Last week, the Rolling Stones launched their latest tour in Houston, marking over six decades of touring together. At 80 years old, Mick Jagger and lead guitarist Keith Richards continue to headline the band, while guitarist Ronnie Wood is close behind at 76. Following the death of drummer Charlie Watts in 2021, the band now consists of the core triad of Mick, Keith and Ronnie, and are now supported by a new drummer and several additional musicians. The tour promotes their first album release of *original music* since 2005, titled "Hackney Diamonds". The Stones are set to perform in 16 cities across the US and Canada, wrapping up the tour in mid-July.

[Rolling Stones - New Concert Tour](#)

In mid-April, NASA finally received coherent data from Voyager 1, its most distant spacecraft, now positioned 15 billion miles from Earth. The spacecraft experienced a computer chip failure last November, which resulted in blank data transmissions and a nervous NASA. Engineers managed to modify the coding to bypass the malfunction and their success was confirmed after receiving accurate engineering updates. However, more work still needs to be done to restore the science data. Data transmission to Voyager 1 takes 22.5 hours for transmission one way (45 hours for a round trip). Launched in 1977 to explore Jupiter and Saturn, Voyager 1 is now studying interstellar space between star systems.

[Voyager 1 Spacecraft Fix](#)

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

Best regards,



**Kim W. Suchy, CEO**

**Brett E. Suchy, COO**

Cornerstone Asset Management Group, LLC

5411 Commonwealth Ave; Western Springs, IL 60558



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