Cornerstone
ASSET MANAGEMENT GROUP, LLC

Economic Indicators | April 2022 | By Kim W. Suchy

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Over the last few years, investors have relied on the Fed to backstop financial markets, rescuing them from serious downturns and effectively putting a floor beneath asset prices. This has been done with one of three (or a combination of) tools: lowering rates; purchasing Treasuries; or, just plain rhetoric from one or more Fed Governors. Whatever tool(s) were used, the process has been referred to as the "Fed Put".

With the Fed now raising rates, monetary policy is no longer bullish for stocks…the Fed Put is now gone yet the markets are doing their best to fight the headwinds and inch their way back. What is providing market support in an environment with elevated inflation and geopolitical uncertainty? It looks as though the Fed Put has been replaced with the "CFO Put" which is effectively a combination of tactical and strategic activities adopted by corporate CFOs to stabilize or inflate company stock.

With stock prices retreating this year, CFO's are looking for ways to stabilize and/or boost their share prices. One often used strategy is share buybacks. Companies with significant cash balances will repurchase shares thereby reducing a company's shares outstanding, which pushes it's per share profit higher, hence its valuation. So, it's no surprise that companies have increased buybacks this year, after a record total of $882B in 2021. In the first two months of this year, S&P 500 companies have disclosed authorizations to buy back $238B in stock, a record pace for the period, according to Goldman Sachs.

Another strategy that CFO's have adopted is to initiate or boost stock dividends. According to Standard & Poor's, CFOs at SP500 companies paid out a record $511B in dividends last year. Many of these dividend payouts to investors were probably reinvested in the company offering the dividends or in the broader stock market. However, any company that initiates a new dividend or increases an existing dividend will need to continue making payments over the long term whereas share buybacks are one-offs and provide more flexibility in managing their capital structure.

The third tool that CFO's will use to enhance shareholder value is through mergers and acquisitions (M&A). M&A is a fast way for companies to up the scale of their operations, broaden their product portfolio, and enter new markets. With rates having been so low last year M&A activity shattered all-time records with deal volumes in the US reaching $2.6T, according to Dealogic. With rates heading higher and operating environments subject to significant headwinds, CFO Puts may only have repurchases and dividends as their primary tools unless massive synergies via M&A can be realized.

In any event, it looks as though the Fed Put is behind us and the CFO Put is in the forefront.

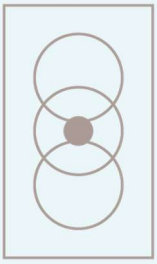
Here is your look at developments in the global marketplace.

POSITIVE DEVELOPMENTS

- Housing starts soared in February to its highest level since mid-2006, while building permits declined though are higher yoy. Housing starts rebounded 6.8% last mo. (and 22.3% yoy) to 1.8 million units more than reversing January's 5.5% weather-related pull back. Single-family starts climbed 5.6% to 1.million, while multi-family starts were 9.3% higher at 554K units and were up 13.7% and 46.6%, respectively yoy. Meanwhile, building permits sank 1.9%, though were up 7.7% yoy. Source: Bureau of Census.

- The Fed reports that industrial activity continued its rapid-paced recovery in February, posting a 2nd gain after a strong January's increase which was the strongest in nearly a year. Manufacturing output was the main contributor rising 1.2%. Notably, all of the gain came from manufacturing outside the auto sector, where activity rose 1.5%. Auto manufacturing continued to be a headwind, falling for the 3rd mo. in a row, due to supply-chain issues i.e. shortage of semiconductors.

- Initial jobless claims fell below 200K to their lowest point since 1969, according to the Labor Department. Initial claims have hovered near their lowest points in decades for a few weeks now as the labor market continues to tighten post pandemic economic recovery. Continuing claims, (people already on jobless benefits) also fell by 67K to their lowest levels since 1970.



NEUTRAL DEVELOPMENTS

- The geopolitical situation, which is complicating the equity and fixed income markets with regard to inflation and interest rates, is impossible to predict. However, if it is resolved quickly, we will see a relief rally. If it is not resolved quickly, it will add to global inflation while the boomerang effect of all the sanctions has not been seen yet.
- The war in Ukraine, as awful as it is, hasn't stopped the US stock market from recovering as investors know that geopolitical issues can be short lived and can present buying opportunities. The war has major impacts on commodity prices and inflation. Energy and materials sectors are benefiting from higher revenues and earnings expectations along with many other companies. Further, many companies are able to pass their higher costs on to customers…*for now.*
    - Commodities and raw industrials spot price indexes have continued to soar in record-high territory since February 24, when the invasion began. That's not normal since these indexes are highly correlated with the global business cycle, which is bound to show slower growth as central banks are forced to tighten their monetary policies in response to higher inflation.

NEGATIVE DEVELOPMENTS

- The Bureau of Census reported that February retail sales growth was slower than expected, though January's sales gain was revised sharply higher. Sales increased a modest 0.3% last mo., slowing from January's 4.9% surge, as higher gas and food prices are likely causing consumers to cut back on discretionary spending (or substituting for cheaper products). Of the 13 retail sales categories, 7 rose during February while 6 fell, with higher gasoline prices boosting gasoline service station sales to the top spot.
- The Commerce Department stated that import prices in February posted another big gain, recording its biggest 2 mo. gain since April 2011. Import prices climbed 1.4% during February and 3.3% during the first 2 mos. of the year, with the yearly rate at 10.9%. Leading the charge were imported fuel prices jumped 6.9% last mo., following a 7.7% surge in January. Petroleum prices shot up 16.7% the first 2 mos. of the year, with the yearly rate (52.8). *This pace will not bode well for our balance of trade since at one time we were net exporters of energy.*
- Ukraine supplies about half of the neon used globally in the manufacture of semiconductor chips. But Ukraine's two leading neon suppliers, Ingas and Cryoin, have stopped operations as a result of the war, according to Reuters. Reuters also notes that the two companies produce 45% to 54% of the world's semiconductor-grade neon, critical for the lasers used to make chips.
- High energy prices in conjunction with rising inflation tend to dampen households' spending power. In fact, the savings rate has plummeted from its pandemic peak (34%) and fallen to its current (6%) lowest level since 2013. As such, households' cushion against inflation is waning. Source Bloomberg.
- According to the US Department of Agriculture (USDA), Ukraine accounts for 10% of global wheat exports, 14% of corn exports, and about half of the world's sunflower oil. Ukraine is the world's 4th & 5th largest exporter of corn and wheat, respectively, according to the USDA, and 85% of its crop

exports travel by sea. With its ports closed, the country is trying to shift some exports through its western borders. In any case, expect wheat, corn and sunflower oil prices to escalate.

- Russia's invasion of Ukraine slowed economic growth in the Eurozone in March, offsetting the boost from the reopening of the economy after C19 related restrictions. Meanwhile, company input and output prices rose at record rates as commodity prices climbed and supply-chain delays escalated.

THE MARKETS

The S&P 500 is up nearly 11% since the March 8 low despite lots of bad news about Ukraine, a more hawkish Fed, a flattening 10-2 yield curve, a new Covid strain, and stagflationary economic data. Energy, utilities, real estate and materials led the way last month while consumer staples, financials and industrials lagged the broader market.

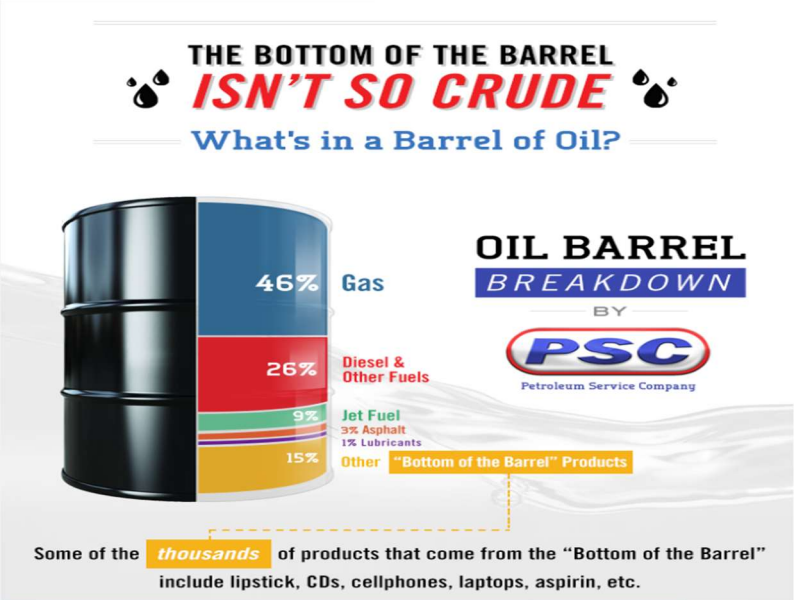
U.S Index	Last Month (% return)	YTD (%)
S&P 500	3.2	-4.8
Dow Jones	4.9	-4.5
NASDAQ Comp	6.8	-9.1
Russell 2000	3.3	-7.9

On the international front, the European markets were generally flat despite extended worries of supply shortages and pending inflation. In Asia, Japan rallied while the Hong Kong and Shanghai markets finished lower. Crude oil prices slipped last month yet remain up over 38% year-to-date.

International Index	Last Month (% return)	YTD (%)
Euro Stoxx 50	0.9	-7.8
Hang Seng	-2.9	-5.7
Germany	1.0	-8.1
Nikkei	4.9	-3.4
FTSE – U.K.	1.6	2.6
China Shanghai	-6.1	-10.7
Crude Oil	-10	38.4

In previous letters to you, I often cite the yield spread between the 2-year and 10-year Treasuries as this often gives us a pulse on the degree of economic growth or potential slowdown. Lately, we have been concerned that the spread compression, and possible inversion, where the 2-year yield exceeds the 10-year yield, is suggesting the possibility of recession. The significance of an inverted yield curve is the fact every U.S recession in the past 60 years has been preceded by an inverted yield curve. And according to the San Francisco Fed, and inverted yield curve was always followed by an economic slowdown and, except for one time, by a recession. *Today, as I write you, the yield curve is precariously close to inverting at a narrow 10y-2y spread of 1 basis point.*

If there is a silver lining in an inversion it is that there is often a year to a year and a half lag before a recession kicks in which gives investors plenty of time to make asset allocation adjustments in client portfolios.



INFO-GRAPH OF THE MONTH – BARREL OF CRUDE

Oil prices have been steadily rising since the pandemic lows in 2020, but prices have taken a giant leap due to the war in Ukraine. Oil futures traded near $94 a barrel on February 24th before Russia's attack on its neighbor, and briefly traded above $130 in early March, marking 14-year highs. As a result, we've all experienced the pain at the gas pump. On 3/30/22 the average gas price in California was $5.91 per gallon, the highest of any state. Therefore, in CA it would cost you roughly $100 to fill up a 17-gallon tank.

According to the Petroleum Service Company, gasoline production is one of the largest petroleum-based products currently manufactured, but it makes up less than half of a barrel of oil. 15% of a barrel of oil is attributed to "other" petroleum-based "bottom of the barrel" products that are made using petroleum at some point in the process. Petroleum is used in paint, tires, solvents, ink, asphalt, roof shingles, cosmetics, shoes, handbags, Vaseline, to name a few. Products made of plastic or from synthetic rubber are petroleum-based; your glasses, styrofoam, and toothbrush. Even money contains elements of petroleum.

If higher oil prices are sustained, consumers can expect plastic and other petroleum-based goods to be more expensive. That includes smartphones, computers and TV's, which have plastic parts. Car prices may remain elevated due to plastic body panels, foam cushions and tires. As you can see, elevated oil prices can impact us more than just at the gas pump.

https://www.nbcnews.com/business/business-news/rising-oil-prices-affect-thousands-products-rcna18985

https://petroleumservicecompany.com/blog/oil-barrel-42-gallon-breakdown/

https://www.eastbaytimes.com/2022/03/30/slight-drop-in-california-average-gas-prices-could-signal-relief-in-the-weeks-ahead-experts-say/

PLANNING CALLOUT – DIVERSIFICATION

Virtually every investment has some type of risk associated with it. The stock market rises and falls. Increases in interest rates can cause a decline in the bond market. No matter what you invest in, risk is something to carefully consider.

One successful way of managing your investment risk is to diversify your holdings. By spreading your money across a variety of investments, you are essentially reducing the amount of risk you are taking on.

The power of diversification will help smooth your returns over time. As different investments fluctuate during various market conditions, diversification can help reduce the impact of market ups and downs, and can possibly enhance your comfort level with investing.

As they say, "don't put all your eggs in one basket."

For more information on diversification please visit:

https://www.csamg.com/What-Is-Diversification.c70.htm

NEWS YOU CAN USE

The Marijuana Opportunity Reinvestment and Expungement Act, which the House Democrats also passed in 2020, would abolish criminal penalties connected to marijuana, create a federal marijuana tax, and expunge court records for nonviolent offenders caught with cannabis. The house will vote on Friday, April 1, 2022. If passed by the house, it would also need approval in the Senate before heading to Biden's desk.

https://news.yahoo.com/house-poised-pass-bill-legalizing-100013748.html

On March 23, $625M of value in cryptocurrencies were stolen from a popular blockchain-based videogame, Axie Infinity, which could be the largest decentralized finance, or DeFi, hack in history. DeFi networks aim to recreate traditional financial systems like banks, but with cryptocurrencies. The company is working with law enforcement and forensic cryptographers to ensure funds are recovered and/or reimbursed to users.

https://www.cnbc.com/2022/03/29/hackers-steal-over-615-million-from-network-running-axie-infinity.html

BA.2 COVID, aka "stealth omicron" is now spreading widely in the US. It was responsible for 55% of COVID-19 cases during the week ending March 26. Health officials indicate that BA.2 is more contagious than the original omicron; however, data does not indicate symptoms are more severe. Plan to hear more about this new variant.

https://www.cbsnews.com/news/covid-deaths-up-40-but-cases-falling-globally-world-health-organization/

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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