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ASSET MANAGEMENT GROUP, LLC

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

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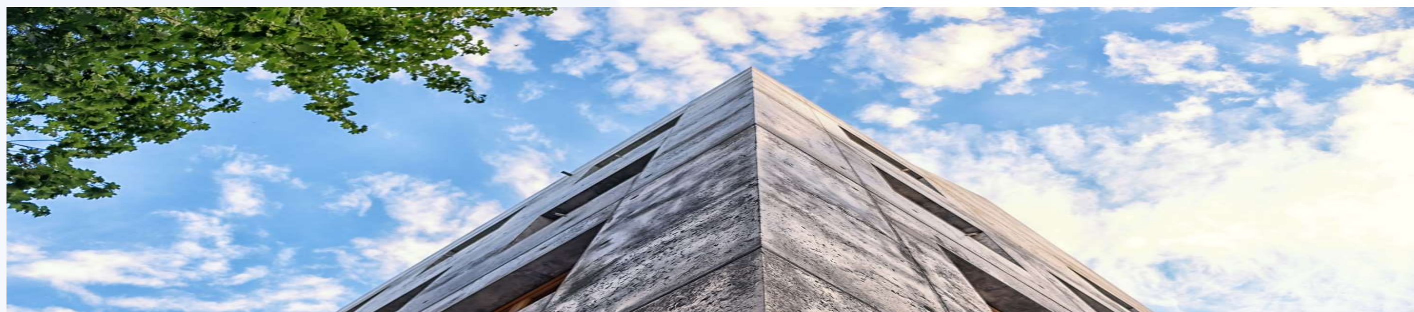


In a time where economic indicators are seemingly flourishing, it's perplexing to witness that consumer confidence remains somewhat pessimistic. Despite favorable metrics such as falling inflation, low unemployment rates, recession evasion, and reasonably strong GDP growth, the sentiment among consumers remains notably subdued. The question arises: why the discord between economic reality and public perception?

As we have repeatedly quipped, the consumer represents nearly two-thirds of GDP activity and while GDP looks relatively sound, the consumer is not participating as much as it could. Why? We can make a case that this is due to the cost of debt service.

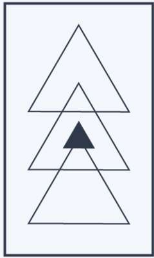
For well over a decade, near-zero short-term interest rates masked the significance of debt service costs. For instance, mortgage rates were in the 2%+ range. However, the swift monetary response to COVID, characterized by an influx of fiat money to keep an economy from hitting the skids, precipitated an unprecedented surge in interest rates. Over 15 months, the Fed boosted rates which skyrocketed from near zero to over 5%, resulting in substantial increases in debt burdens across the board. Mortgage rates soared from 2+% to over 7%, car loans have nearly doubled, and credit card rates surged from an average of 15% to 23%. These numbers are not reflected in inflation numbers but are certainly reflected in an indirect way in GDP, Consumer Sentiment and Consumer Confidence.

This spike in rates has translated into a tangible impact on everyday households. Consider the homeowner who wants to move but is unwilling to give up their 2+% mortgage. This sentiment is widespread and is causing a limited supply of available homes for those willing to absorb a higher mortgage. However, the limited supply translates into higher home prices and paying up for a new home reduces one's available capital for new refrigerators, tv's and furniture which are direct beneficiaries to GDP. Current inflationary pressures, coupled with escalating debt obligations, have disproportionately affected those who require a mortgage while the affluent, typically debt-averse, have remained relatively insulated from these challenges.

So, while there is a disconnect between economic prosperity as reflected in traditional metrics (i.e. measures of GDP or manufacturing numbers) and the "lived" experiences of everyday consumers, it underscores the limitations of conventional economic assessments. Inflationary numbers oscillate (and are cumulative by the way), rising taxes and higher mortgage rates are not included in CPI yet represent strains on household budgets. As inflation eats away at purchasing power and taxes carve into disposable income, it helps provide a partial explanation as to why consumer sentiment and confidence is waning.

Consumers now anxiously wait for the Fed to initiate its rate cut campaign and once this happens, we could very well see the strains on household budgets begin to ease.

Here is your look at developments in the global marketplace.



POSITIVE DEVELOPMENTS

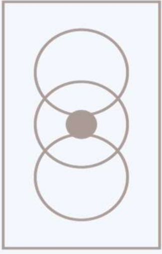
- The price of gold continued to march higher. One of the most frequent cited reasons for gold's recent rally is confidence among traders that the Fed will cut interest rates in the coming months. This trend has weighed on Treasury yields and the dollar and would also typically boost gold because lower short-term rates make the precious metal—which has no yield—look more attractive.

- Housing starts increased 10.7% in February to a 1.5 million annual rate. Starts are up 5.9% versus a year ago. New building permits increased 1.9% in February. Compared to a year ago, permits for single-family homes are up 29.5% while permits for multi-unit homes are down 29.0%.

- Existing home sales surprised to the upside in February. February's gain was the biggest in a year and follows a healthy increase in January as well. It appears that sales activity has finally bottomed out and is beginning to recover after 2 years of declines. Recent rate declines and hints of Fed rate cuts have helped.

- China continues to rely on expanding manufacturing capacity to produce more goods for exports as a major source of economic growth. China's trade surplus remains near recent record highs as China is dumping goods into the global market, as evidenced by the 3.1% y/y decline in the US import price index for Chinese goods. That has helped bring down the US core PPI and core CPI. Source: Yardeni Economics.

- Despite recent CPI and PPI reports that suggest inflation remains an issue, the bond markets are still anticipating that the Fed will cut the federal funds rate 3 times over the next 12 months. Late last week, the March federal funds rate futures was 5.33%, while the 12-month futures was 4.47%. That 86-bps spread implies that investors expect at least 3 cuts of 25-bps points each by March of next year.



NEUTRAL DEVELOPMENTS

- Some global commodity prices have fallen, potentially signaling weak demand from China, a significant user of commodities like copper, iron ore, and oil. The price of copper, at $3.84/lb, is 22% off of its $4.93 high and 81% off of its $2.12 low. The war between Israel and Hamas and the Red Sea ship bombings by the Houthis, has not created supply imbalances (price increases). Oil is trading at $82.61/brl, down from their 2022 peak of $125+ level in 2022. Iron ore has also fallen to $109.84 per ton from a recent peak of over $130.

- Data from an Investment Company Institute survey taken in May and June of 2023 revealed that nearly 42% of U.S. households owned an IRA (Traditional or Roth) as of mid-2023, up from 37% in mid-2020, according to Ignites. This number is expected to rise as the U.S. population ages and retirees roll their assets out of employer-sponsored retirement plans. Further, investors realize that Social Security Benefits will not be an adequate income source in retirement.

- SP500 quarterly buybacks rose 18.0% q/q during Q4 2023 to a 6-quarter high of $219.1B from $185.6B during Q3 2023. That's 22.0% below its record high of $281B during Q1 2022 yet is well above its 22-quarter low of $88.7B during Q2 2020, when companies conserved cash due to a highly uncertain economic period caused by Covid-19. Source: LSEG DataStream

- Industrial production returned to the plus column in February, as both manufacturing and mining recovered from weather-related declines in January. Production was up 0.1%, following January's 0.5%.

- Home prices in the 20 biggest U.S. metros hit a new high as the housing market deals with an ongoing lack of homes for sale. The S&P CoreLogic Case-Shiller 20-city house price index rose 0.1% in January compared to the previous month. Lack of supply and falling mortgage rates are boosting prices. Prospective buyers remain torn between paying up for a new home or staying put due to their low mortgage rate financed a few years ago.

NEGATIVE DEVELOPMENTS

- Ed Yardeni notes that the UK and Japan are in recessions and Germany is on the cusp of one. China's property bubble has burst, which is hurting their economy and weighing on other Asian economies. The weakness in the global economy is evident in commodity prices. The S&P Goldman Sachs Commodity Price index is down 31% from its March 8, 2022, peak and the CRB raw industrials spot price index (which does not include energy commodities) is down 21% since its record-high peak on April 4, 2022.

- U.S. consumer price index rose 0.4% in February, while matching its forecast, was the largest increase in the last 5 months. Core CPI, which excludes food & energy, increased 0.4% in February, slightly above forecast. The 12-month rise in CPI climbed to 3.2% from 3.1% in the prior month while the increase in core CPI in the past 12 months slipped to 3.8% from 3.9%.

  - The FED has more cause to leave rates unchanged. A March, April and possibly May rate cut has already been entirely ruled out, but the February CPI data will solidify expectations the first cut will not come until June at the earliest.

- China is facing serious economic headwinds as they recently announced plans to target 5% annual real GDP growth, the creation of 12M jobs, a 5.5% unemployment rate, and inflation of 3% in 2024. Its economic growth target is very ambitious given the pressures the economy faces. They include an aging population, youth unemployment that was extremely high before the country stopped reporting the data, and a real estate sector that's imploding. Plus, many past trading partners have sought alternative sources due to political conflict.

- Oil prices have been edging higher, with analysts attributing gains in part to continued drone attacks by Ukraine on Russian refiners. Reuters has estimated the attacks have knocked around 7% of the country's refining capacity offline. This will likely impact Russian crude exports.

THE MARKETS

The U.S. equity markets legged higher in March. What was interesting is that there was a sector reversal in laggards and contributors as those sectors that led the market in February were laggards in March.

Again, the benefits of diversified portfolios were demonstrated. Energy, utilities, and materials led the pace in March while health care, consumer discretionary, real estate and tech were laggards.

The European and Japanese markets had strong performance in March while China was generally flat on the month.

Treasury prices edged a bit higher in March as yields headed lower. The 10-year closed the month of March to yield 4.2% and market expectations for a Fed rate cut are now at 62% chance by the end of June.

U.S Index	Last Month (% return)	YTD (%)
S&P 500	2.3	10.2
Dow Jones	1.8	5.6
NASDAQ Comp	0.6	9.1
Russell 2000	2.3	4.8

Source: https://tradingeconomics.com/stocks

Topic of the Month: Re-Shaping Communication & Workplace

Years after COVID first emerged, its influence on how we socialize and do business is evident to us daily. Zoom meetings, telehealth, FaceTime, text message, social platforms, and remote work have become the preferred mechanisms of communication and collaboration. These technologies, platforms and policies thrived during the pandemic and have fundamentally reshaped the nature of personal and business interactions as we dramatically shifted towards a digital existence. This transition, while it was necessary for public health measures, did help foster an environment where the screen became the norm, and the in-person connections hit the sidelines. The impact remains deep, emphasizing that an escalating reliance on technology, in a contradictory manner, serves to both connect and isolate us.

Technology was the proclaimed bridge in communication during the pandemic and has indeed played a crucial role in maintaining personal and professional connections in the modern era. Yet, this digital lifeline has morphed into a double-edged sword. Smartphones, social media, gaming, and virtual platforms have facilitated an unprecedented level of connectivity. Yet, this connectivity has also given rise to a contradictory feeling of isolation because online interactions frequently miss the depth and emotional connection found in in-person encounters. The foundation of human connection, previously connected with shared physical spaces and experiences, appears to be diminishing within the digital realm.

The decrease in socialization, a direct fallout of the pandemic's restraints and the subsequent technological pivot, has had ripple effects on mental and emotional well-being. Social skills, particularly among the younger generations, have been at risk of weakening without the regular practice that only real-world interactions can provide. The stimulus of conversation, the unspoken language of body movements, and the warmth of physical presence are dimmed in the glow of screens. This shift has raised concerns about the long-term implications for empathy, understanding, and the need for community.

As we pilot through the post-pandemic world, the challenge now lies in finding a nice balance between embracing technological advancements and preserving the principle of human connection. We need to continue to use social settings, cultivate personal and workspaces, both digital and physical, that foster meaningful interactions. While technology will indeed continue to shape communication and our lives, it is imperative to remain aware of the quality of our connections, and make sure that the technological tools intended to bring us closer together do not push us apart.

NEWS YOU CAN USE

Following the upset victory of #14 Oakland vs. #3 Kentucky in the first round of the NCAA March Madness Tournament, Oakland's University website crashed as people flooded the site after the victory. It turns out $8K of merchandise was sold to customers with Louisville zip codes overnight, according to Oakland's Head Coach, Greg Kampe. He said, "Think about that. Honest to God. They buy the T-shirts and they put the credit card in – Louisville, Louisville, Louisville. So, I don't know. Next year when Louisville and Kentucky play, I don't know if everybody's going to show up in an Oakland shirt or what. I have no idea."

https://sports.yahoo.com/march-madness-oaklands-greg-kampe-says-louisville-fans-bought-8k-in-golden-grizzlies-gear-after-upset-of-kentucky-000044888.html

An Auburn student, Conor Boyle, nailed a 94-foot putt, from baseline to baseline during the Auburn vs. Georgia NCAA basketball game in early March. The feat landed him a brand-new car. The contest, held 12 times per year, was won in February of 2023 by a writer for the University's student run website, The Auburn Plainsman. However, it was the first time a student has won the promotion since 2014. Beyond the basketball court, in November 2023, the Guiness Book of World Records found itself a new entry for the world's longest putt ever recorded (on the golf course). Jay Stocki sunk a 401-foot putt to oust the former record holder by 4.9 feet.

https://golf.com/news/golfer-calls-shot-drains-400-foot-putt-world-record/

https://twitter.com/i/status/1766627681448395083

On April 8th, North America will see day turn into night during a total solar eclipse that will last up to 4 minutes and 28 seconds in the path of total darkness (twice as long as the solar eclipse that dimmed US skies in 2017). 15 US states will get the best action (Texas, Oklahoma, Arkansas, Missouri, Illinois, Kentucky, Indiana, Ohio, Pennsylvania, New York, Vermont, New Hampshire, Maine, and small parts of Tennessee and Michigan). However, if you're not smack dab in those states, practically everyone on the continent can catch at least a partial eclipse. The next US eclipse, spanning coast to coast, won't happen until 2045, so make sure you attempt to look up, with shades of course.

https://science.nasa.gov/eclipses/future-eclipses/eclipse-2024/where-when/

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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