Cornerstone
ASSET MANAGEMENT GROUP, LLC

Economic Indicators | July 2022 | By Kim W. Suchy

www.csamg.com I Kim.Suchy@csamg.com

We have certainly witnessed a fair amount of market volatility lately which is unsettling, but historically not that unusual. We recognize that markets will grind higher and retreat then rinse and repeat. Understanding that markets will not press higher in a straight line, we build diversified portfolios that match client time horizons and risk tolerances. Therefore, it is likely that the recent market pullback will be a blip in a long-term investment plan. Time has a tendency to heal all wounds while trying to time the market can, and often times hurt, portfolios. Making accurate decisions as to when to get out and when to get back in can be a fool's errand. Maintaining an asset allocation and continuing to invest even as the markets pull back may be a bitter pill to swallow, but it is healthier for one's portfolio and can yield greater accumulated wealth over market cycles.

This past month has served as a highlight reel for volatility. The weeks ending June 10 and June 17 saw consecutive SP500 declines of 5.05% and 5.79%; yes, a bitter pill to swallow. However, Bespoke Investment Group noted that when the SP500 had seen consecutive weekly declines of 5% or more – which has happened only seven times since 1945 – the SP500 has rallied an average of 5.24% in the next month, +20.64% in the next six months, and +28.16% in the next 12 months.

In the latter part June, the U.S. markets tried to rebound as they faced a sudden shift for the good. The talking heads who maintained an ongoing narrative of higher inflation, recession fears, weak fiscal policy and an uncertain number of Fed rate hikes gave way to a new narrative that embraced lower inflation, a softening of recessionary fears, and fewer Fed rate hikes. All of this was prompted by the fact that the Fed implemented a 75bps rate increase and sent a loud message to the markets that they are serious about controlling inflation. It has become evident that inflation has been the primary market headwind. As a result of the Fed action, stocks initially climbed higher, and tried to set a floor and a new tenor for the market.

Yes, we may see more treks higher and some retreats but the degree of volatility at this stage of the market cycle makes investment timing extremely difficult. We believe maintaining a cautious approach to investing and adhering to client prescribed asset allocations will hold investment profiles in good stead.

Here is your look at developments in the global marketplace.

POSITIVE DEVELOPMENTS

- Industrial output in May continued to reach new record highs according to the Fed—though May's gain was less than 1/4 of the avg mo. increase for the first 4 mos. of this year. Headline production climbed for the 7th time in 8 mos., by 0.2% m/m and 5.8% over the period, while manufacturing output dipped only 0.1%, following a 3 mo. jump of 1.4% to its highest level since summer 2008—despite supply-chain disruptions and shortages driven by the war. By market group, consumer goods production remains on an accelerating trend, climbing 3.2% ytd and 23.5% since its April 2020 bottom to its highest level since July 2008.

- There was an average of over 2.3M US air travelers per day over the last week, the highest level since the start of the pandemic according to TSA.gov. The increase in travel is occurring in spite of the 38% increase in airline fares over the past year, the highest YoY increase ever. This is a key sign that consumers are spending.

- May Durable Goods Orders were much better than expected. Total durable goods orders increased 0.7% mo. over mo. a 0.4% increase in April. Excluding transportation, durable goods orders also increased 0.7% following a 0.2% increase in April.

NEUTRAL DEVELOPMENTS

- Companies generally have two ways to return capital to their shareholders: cash dividends and stock buybacks. According to S&P research, the all-time high for the SP500 quarterly dividend payout was the $138B in Q1'22 while the record for quarterly stock buybacks was the $281B registered in Q1'22. As companies accrue cash during this market pullback period, expect more stock buybacks which provide ballast to stocks.

- The price of oil is slowly drifting lower. However, countervailing forces are exerting both downward and upward pressure on oil prices. Among the former, production has ramped up greatly. Fears of a recession—and the lower oil demand that usually results—have also led to modest price reductions. Further, electric vehicles are gaining traction in the marketplace but are costing more to make with commodity prices so high and costing more to buy with manufacturers passing their cost increases onto consumers.

- The U.S. is still an exporter of energy. Some of those US exports are heading to Western Europe to replace sanctioned Russian oil. However, the Russians are selling more of their output at discounted prices to China and India. Meanwhile, at its last meeting on June 2, OPEC+ agreed to boost output by 648K bpd in July and by the same amount in August, up from the initial plan to add 432K bpd a mo. over 3 mos. until September.

NEGATIVE DEVELOPMENTS

- With stocks and Treasuries tumbling on the heels of the Fed's increasingly hawkish policy direction, the time-tested method of allocating 60% to equities and 40% to fixed income has plunged double digits this quarter. That's a worse quarterly showing than in 2007-08 global financial crisis and during the C19 pandemic rout, according to data compiled by Bloomberg. It's a sign that the hedging power of bonds continues to vanish in the current inflation era, sparking wealth decay across many U.S. pension funds.

- The bigger they are, the harder they fall. The MegaCap-8 includes Alphabet, Amazon, Apple, Meta, Microsoft, Netflix, Nvidia, and Tesla. Tesla was added to the SP500 on 12/21/2020. At that time, these 8 stocks were the ones with the highest market capitalizations of the SP500 Growth index. They are widely viewed as tech companies; but, in fact, only 3 of them are in the SP500's Technology sector (Apple, Microsoft, and Nvidia), 3 are in the Communication Services sector (Alphabet, Meta, and Netflix), and 2 are in the Consumer Discretionary sector (Amazon and Tesla). Yardeni Economics reports that at their collective peak on 12/27/21, the MegaCap-8 stocks accounted for 26% of the market cap of the S&P 500 and 48% of the S&P 500 Growth index. Since its peak last year, the market cap of the MegaCap-8 has dropped 34% through last week. Since the SP500 peaked on January 3, the index's market cap is down $9.5T through last week. The MegaCap-8 has accounted for 38% of the drop in the S&P 500's market cap.

- The Statistical Office of the European Communities reports that headline CPI rate (inflation) for May accelerated to a new record high of 8.1% y/y, up from 7.4% in both April and March—6.1ppts above last May's 2.0%. Escalating food and energy were the main culprits.

- The Census Bureau reports that both housing starts and building permits plunged in May to their lowest post since last April and September, respectively, while homebuilders' optimism for June dropped for the 6th successive mo. to its lowest reading since June 2020 as high inflation and rising mortgage rates reduced affordability for entry-level and first-time home buyers. Further, existing home sales fell for the 4th mo. in a row in May, hitting the slowest pace since 2020 with falling affordability playing a major role.

- The Consumer Sentiment Index (CSI) in June sank to its lowest level in the history of the series going back to 1952—as "consumers across income, age, education, geographic region, political affiliation, stockholding, and homeownership status all posted large declines," stated Joanne Hsu, director of the Consumer Board survey. The (CSI) contracted for the 5th time this year, sliding 8.4 points in June and 20.6 points ytd to 50.0. It was at a recent peak of 88.3 in April 2021.

THE MARKETS

As noted earlier, volatility has not been a friend to the U.S. markets. In fact, the benchmark SP500 has logged one of its biggest first-half percentage drops since 1970. Further, all three indexes (Dow, SP500 and NASDAQ) have posted two straight quarterly declines for the first time since 2015. Toward month end, we have seen some evidence that energy prices may have peaked as well as conjecture that any recession may be mild and short lived.

Last week gave us a ray of hope as markets reacted favorably to an aggressive Fed rate hike hoping to nip inflation quickly. While markets rallied briefly, light volume did not allow the rally to stick as slight sell-offs followed. Communications, health care, consumer staples and consumer discretionary sectors outperformed the SP500 while energy, materials and financials wee laggards.

On the international front, Asian markets Hong Kong and Shanghai posted healthy returns as C19 lockdowns ended. Japan was modestly lower. Eurozone markets were broadly lower as inflation riddles the area and Central Bank efforts to mitigate inflationary pressures has been moot.

Regarding fixed income, the Fed raised rates by 75bps and was accompanied by a strong message that they will fight inflation with a vengeance. Markets rallied briefly on the conviction.

The yield on the 2-yr note, which is most sensitive to changes in the fed funds rate, now sits at 2.97% and is up from 2.55% at the close of May. The 10-yr. note yields 3.00% versus 2.86% at May's close. The 2-10 spread now sits at 3bps which is close to flat and markets are watching closely for a possible inversion which may suggest the market anticipates a recession.

U.S Index	Last Month (% return)	YTD (%)
S&P 500	-9.1	-20.8
Dow Jones	-7.4	-15.5
NASDAQ Comp	-9.2	-29.9
Russell 2000	-8.5	-23.9

International Index	Last Month (% return)	YTD (%)
Euro Stoxx 50	-8.9	-15.4
Hang Seng	2.8	-6.6
Germany	-12.3	-19.5
Nikkei	-3.6	-8.3
FTSE – U.K.	-5.7	-2.9
China Shanghai	6.7	-5.3
Crude Oil	-5.6	40.4

https://tradingeconomics.com/stocks

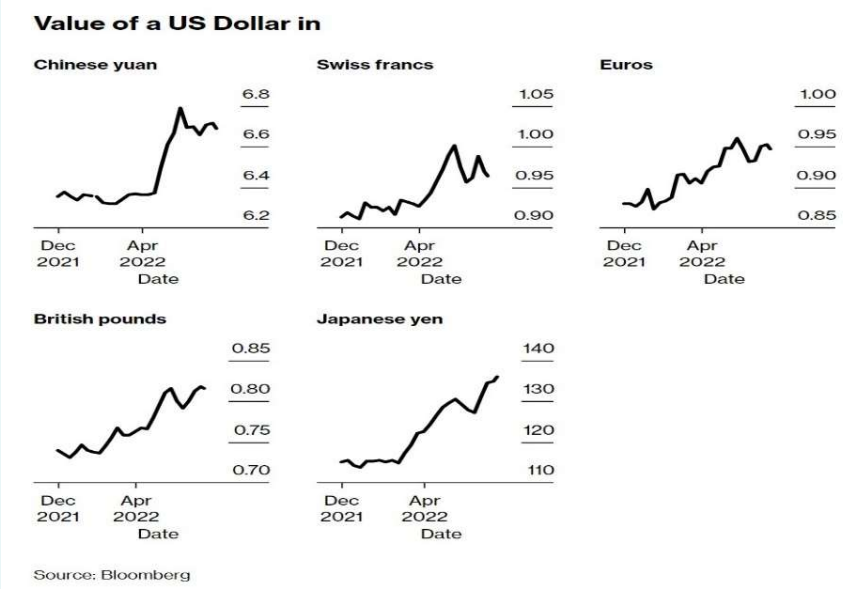


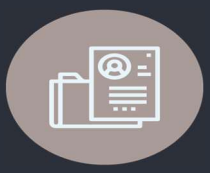
Chart of the Month – US Dollar Vs. Major Currencies

This month's chart highlights the year-to-date strength of the US Dollar vs. other major currencies. As the Fed ups the ante to combat inflation, rising interest rates domestically have attracted investment capital abroad that seeks higher returns on bonds and interest-rate sensitive products. Global investors sell investments in local currencies to buy dollar denominated investments, and the result is a stronger exchange rate.

Domestically, a strong dollar has its advantages and disadvantages. Traveling abroad is less expensive, importing goods from other countries is cheaper, and multinationals that do business in the US benefit. Lastly, the status as the world reserve currency is bolstered. On the flip side, a strong dollar deters tourism, exports fall, and US companies who conduct most of their business abroad can suffer.

This month, central banks across the globe have followed suit with interest rate hikes to provide strength for their own currencies to reduce the cost of imports and boost buying power abroad. This is something to take note as currency wars can trigger wild swings in most dominant currencies, handicap manufacturers that rely on exports, topple finances for multinationals, and disperse inflation problems across the globe.

https://www.bloomberg.com/news/articles/2022-06-23/us-dollar-strength-sparks-currency-war-to-tame-inflation



Planning Callout – Dollar-Cost Averaging

Dollar-cost averaging is an investment technique which involves investing a set amount of money in an investment vehicle or the market at regular intervals for an extended period regardless of the price. The idea is to reduce the risk of investing a large or whole amount at once when the cost per share could be inflated, and to take advantage of downside volatility in markets or share price over time.

After a decline in the stock market, some investors may scramble to get out and look to re-enter when the market has risen. Instead, by investing a specific amount based on an interval set, it can help to avoid the annoyance and stress of continually monitoring the market to buy and sell at 'fortuitous' moments. In addition, trying to consistently and accurately market time has been proven extremely difficult and costly. Dollar-cost averaging is a long-term plan, which is implied by the word "averaging". The technique's best use comes when it's been used over various market cycles, and despite any nerve-racking swings in the market.

For more on dollar-cost averaging visit:

https://www.csamg.com/What-Is-Dollar-Cost-Averaging.c87.htm

NEWS YOU CAN USE

The Saudi-backed LIV golf tour has created chaos amongst the golf community by managing to sign 20+ and counting of the top 100 golfers in the world. Excessive contracts for big names, such as $150 million for Dustin Johnson and $200 million for Phil Mickelson to join, have professional golfers in a dilemma between joining a new controversial league, but getting paid the most they'll ever make in their careers.

https://nypost.com/2022/06/21/brooks-koepka-joining-saudi-backed-liv-tour/

A sea of societal, political, and economic change, and of course, poor company stock performance, has led to outsized changes in executive leadership of US companies. As of May this year, 100 U.S. public company CEOs have left their posts, according to workforce consulting firm Challenger, Gray & Christmas. This is the highest January-to-May total since the firm started tracking monthly CEO changes in 2002. Continued concerns over economic conditions and future direction of companies may continue to fuel boards to rethink their leadership positions.

https://www.challengergray.com/blog/ceo-changes-continue-upward-trajectory-may-exits-up-52-from-same-month-last-year/

In India, June 29th is celebrated as National Statistics Day which marks the birth anniversary of P.C Mahalanobis who was an iconic Indian scientist and statistician. He is remembered for the Mahalanobis distance, which is a key statistical measure in probability distribution. The objective of this day is to create public awareness, especially in the younger generation about the role and importance of statistics in socio-economic planning and policy formulation.

https://byjus.com/current-affairs/national-statistics-day/

https://en.wikipedia.org/wiki/Mahalanobis_distance

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

Best regards,

Kim W. Suchy

CEO | Cornerstone Asset Management Group
5411 Commonwealth Ave; Western Springs, IL 60558