Cornerstone
ASSET MANAGEMENT GROUP, LLC

Economic Indicators | February 2024 | By Kim W. Suchy

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The economy, by many measures, remains robust. Real GDP showed a commendable 3.3% annual growth in Q4, and December witnessed robust consumer spending, setting a positive tone for 2024.

However, the fragility of the employment landscape raises many eyebrows. The apparent strength in job growth is somewhat tempered when we exclude gains in certain sectors heavily reliant on government funding and those still recovering from lockdowns. This nuance concerns us as we wonder whether we can sustain recent GDP growth, especially as a significant portion seems fueled by government deficits.

DoubleLine Capital CEO Jeffrey Gundlach, known as the "Bond King," pointed out state unemployment numbers he described as "hard to believe." He states, "amazingly, 88% of the states, and I think they have D.C. in there so there's 51 of them, 88% of them are reporting rising unemployment over the last 6 months. Data from the December jobs report showed the U.S. unemployment rate unexpectedly fell to 3.7% after rising for 3 straight months. Further, a recent report from business and executive firm Challenger, Gray & Christmas found the pace of job cuts by U.S. employers accelerated in 2023, with the number of layoffs surging 98% compared with the previous year.

So, what concerns us is, if the unemployment rate is falling despite rising unemployment filings, are more people considered structurally unemployed and can no longer file for unemployment since they have exhausted benefits? Is technology and AI displacing a portion of the workforce? Are certain skillsets no longer needed? It could be one of these of any combination of all three.

A good friend of mine, John Karras, who will not mind this shameless plug, is the CEO of a national career transition firm, Job Transitions, Inc.. I posed the aforementioned questions to him and asked what he is seeing in the employment market. He stated that he has never been busier in his career as his clients are either recently laid off, about to be laid off, or are reentering the job market after being retired for many years. The retirees reentering the job market all cite inflation eating into their fixed incomes as a reason to seek employment; once again.

So, while we whittle away at these job market issues, the stock market continues its rally, pressing new highs. It appears the market is rallying on the anticipation of a significant reduction in short-term interest rates by the Fed. However, lowering rates when both inflation levels and the unemployment rate are both falling seems to be incongruent policy given a healthy, growing economy. Fed Chair Powell is a smart guy, we hope and trust that he and the rest of the Fed vets can see through this recent series of employment data and not make a hasty rate decision given the layers of complexity underneath the numbers.

Here is your look at developments in the global marketplace.

POSITIVE DEVELOPMENTS

- According to Yardeni Economics, the inverse correlation between the stock market's valuation multiple and inflation and interest rates seems to work through the business cycle. Rising inflation and interest rates usually cause credit crunches and recessions. It's the drop in earnings during recessions that also depresses the valuation multiple of those earnings. This time has been different so far because rising inflation and interest rates haven't caused a recession….*nor do we expect one.*

- Real GDP grew at a 3.3% a/r in Q4, well higher than the consensus expected 2.0% and higher than the forecast from any economics group we are aware of. Although personal consumption accounted for most of the growth, every major component of GDP expanded and real GDP grew 3.1% in 2023, on par with the 3.2% pace of 2019, the year before COVID.
  - While GDP growth slowed in Q4 from Q3, the second-half average growth rate of 4.1% was impressive and almost doubled the first half's 2.15% rate. Arguments the US is in a recession are ill-founded given solid growth overall and at least some growth in all major GDP categories.

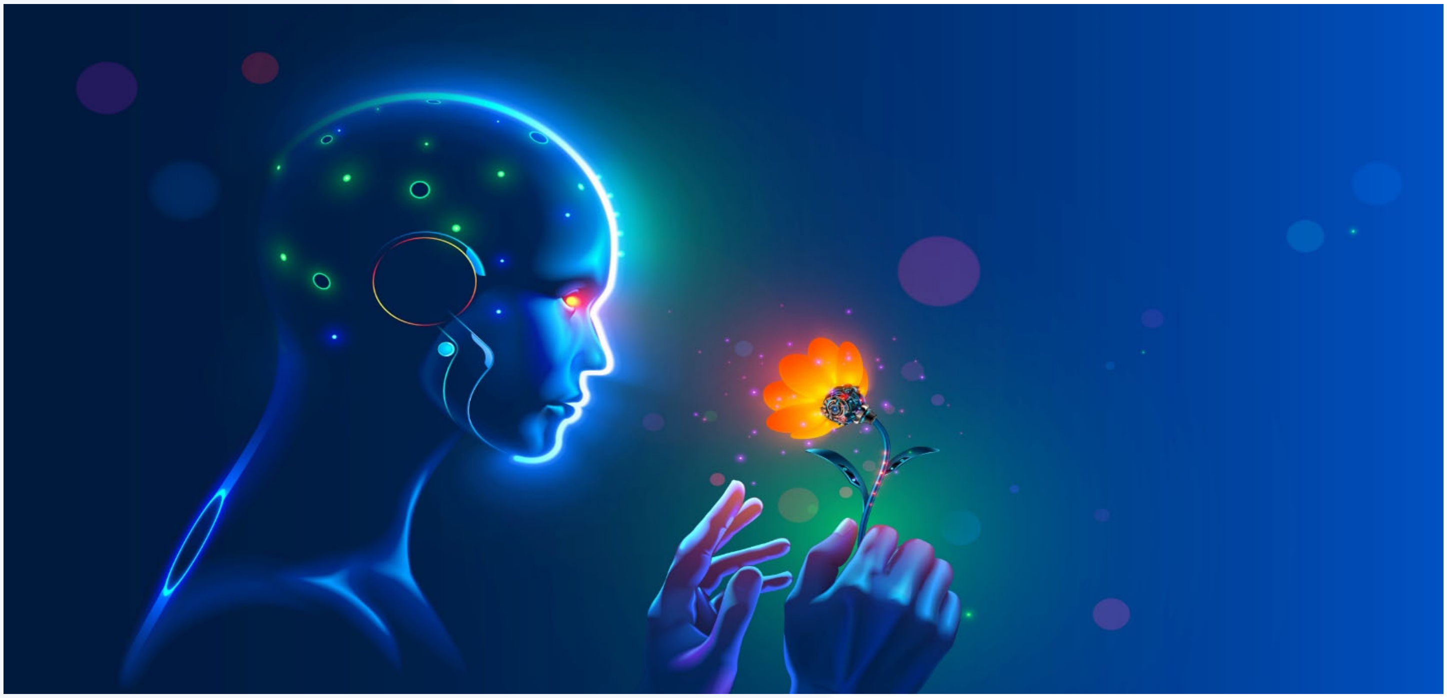
- Initial jobless claims for benefits rose 25K last week to 214K for January. Continuing claims rose 27K to 1.8M. These figures are consistent with continued job growth in January and give the Fed no urgent need to cut rates.

- *New* home sales closed 2023 on an uptick, rising 8.0% in December. Despite a new home sale downtrend since last summer, sales activity for the year 2023 was up 4.2% over 2022. Further, last year's gain was the first annual gain since 2020 when COVID shutdowns and work-from-home generated the demand surge for single-family homes.

- Cash is flowing into money market funds (MMF) at a healthy pace thus far in 2024 according to Reuters. So far this year, MMF balances have increased by $75B…this is on top of the $6T already sitting in MMF's. Should the Fed lower rates soon, yields on MMF's will decline and stocks and bonds become more attractive alternatives. Stay tuned on this.

- In December, consumer spending rose 0.7% and was revised from 0.2% to 0.4% in November, suggesting robust consumer activity accelerating through Q4. Income rose 0.3% in December, falling behind consumption but beating the 0.2% rise in inflation, meaning real income rose, too.

- We have witnessed rapid growth in productivity over the past 3 qtrs. Which has reduced the growth rate in unit labor costs (ULC) to only 1.6% y/y through Q3. The key point is that the ULC inflation rate is a major driver of the headline PCED inflation rate, which fell to 2.6% y/y during December, the lowest reading since March of 2021 and close to the Fed target of 2%. This is the Fed's key barometer of inflation. *Credit the improvement in productivity to technology and AI.*



NEUTRAL DEVELOPMENTS

- Moody's reported that its *global* speculative-grade default rate stood at 4.8% in Dec. 2023, according to its own release. Moody's notes that the historical average default rate is 4.2%. Its outlook sees the global default rate falling to 3.7% in Dec. 2024. The *U.S.* speculative-grade default rate stood at 5.6% in Dec. 2023. It predicts the U.S. default rate declining to 4.1% in Dec. 2024.

- India's stock market is now bigger than Hong Kong's, indicative of the shift in investment and goods orders from China to India. India's economy is surging especially in the tech arena. Could we be seeing reglobalization and not deglobalization? Capital flows to the most efficient; India is showing its wares!

NEGATIVE DEVELOPMENTS

- Oil prices are climbing amid Middle East tensions Brent now firmly above its 50-day moving average and expected to remain elevated as Red Sea conflicts continue.

- China's economy is not doing well. In fact, China is considering a 2T yuan ($278 billion) fund to prop up stocks, mainly through the Hong Kong exchange. According to Bloomberg, the idea was proposed by Premier Li Qiang's calling for "forceful" steps to prop up the economy and China's stock market which has drifted to five-year lows in late January. The Premier better get this right….we have not seen good things come from bad decisions; particularly in China.
  - *More than $6T has been wiped out from the market value of Chinese and Hong Kong stocks since the 2021 peak, a Jan. 23 Bloomberg article reported..*

- The European Union (EU) is currently facing economic headwinds. There's a slowdown in economic growth and a lack of support from exports, especially to China. While the EU's GDP has been leaning more towards a service-oriented GDP, industrial production is soft. Inflation has been moderating but Central Bank Chief, Christine LaGarde, states that there is a ways to go before the inflation battle is over….*Sounds a bit like Fed Chair Powell.*

- Leading indicators slipped again in December. Leading Economic Indicators (LEI) fell last month for the 22nd straight month, edging down 0.1% (vs -0.3% expected) m/m and 12.6% over the period, to the lowest level since May 2020.

- ATTOM reported that total U.S. foreclosure filings (including default notices, scheduled auctions, and bank repossessions) rose by 10% yoy basis to 357K properties in 2023. Foreclosure starts are on the rise nationwide but remain below pre-pandemic levels.

THE MARKETS

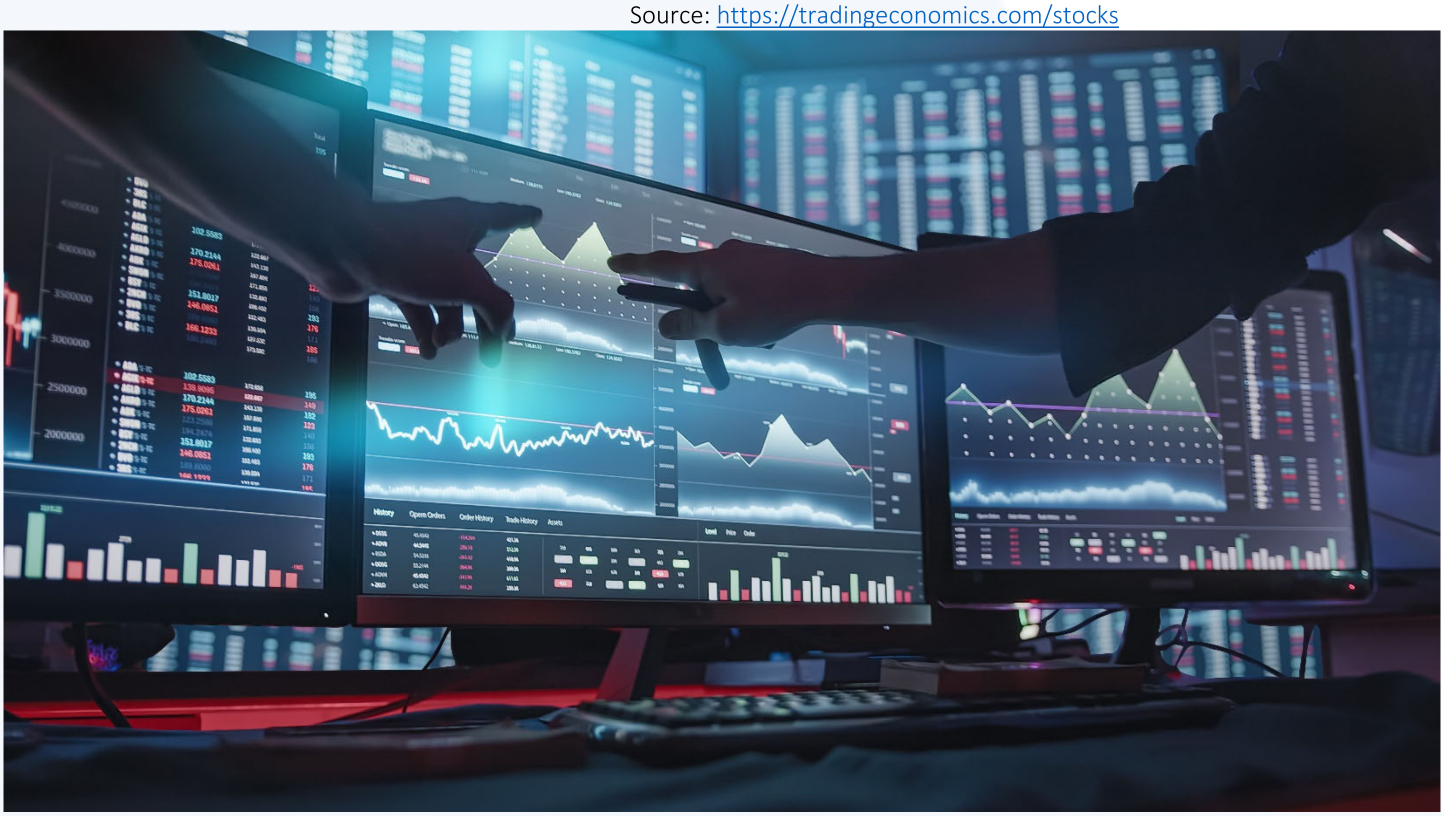
The U.S. equity markets were mixed with the SP500 and Dow logging positive returns while small caps lagged. Communication services and tech were the big leaders while real estate, utilities and materials were laggards.

The European markets had respectable results in January with most markets logging 2%+ returns. Asia was mixed with Japan registering an 8% gain on the prospects of aggressive monetary stimulus. China and Hong Kong, on the other hand, posted very weak results.

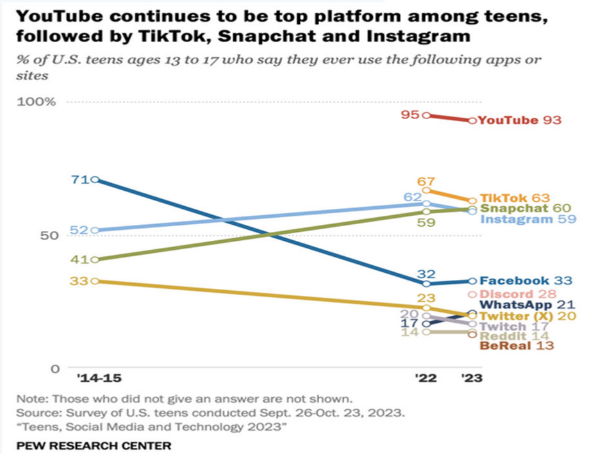
A somewhat lethargic equity market found some energy early this past week that was fueled by the Treasury Department's lower-than-expected Q1 borrowing estimate. Specifically, it was $55B less than previously expected. This was well received, and bond yields headed lower and gave a boost to stocks.

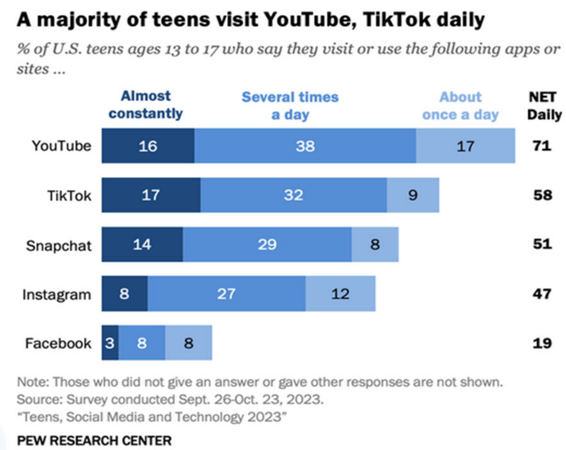
U.S Index	Last Month (% return)	1 Yr. (%)
S&P 500	1.6	17.6
Dow Jones	1.2	11.9
NASDAQ Comp	1.0	28.3
Russell 2000	-4.1	-0.9

Source: https://tradingeconomics.com/stocks



Graphs of the Month: Teenage Social Media Use





Source: https://www.pewresearch.org/internet/2023/12/11/teens-social-media-and-technology-2023/

It's hard to believe that it has been just 2 decades since the inception of Facebook (or "Facepage" as Kim humorously dubs it). Since then, the world of social media has witnessed a whirlwind of innovation leading to a variety of social outlets that shift as new generations embrace fresh preferences.

Now at 34, I belong to a generation that grew up on Facebook, but its popularity faded amongst us with the introduction of Instagram and X. Personally, I am far removed from being a social media enthusiast. If I do post anything anymore, it will feature my dogs or family, and of course, I have the occasional stroll. It's not because I am anti-social, but perhaps over time, we realize that time is better spent elsewhere and it's best to avoid the pitfalls of jealousy and frustration that can come with comparing ourselves to others. Now, for the youngsters that still have a lot to discover in this world, such as better forms of communication, and that persistent social media use can sometimes be detrimental…let's look at where they're spending their time (and how much of it)!

95% of teenagers (Ages 13-17) in the US have a smartphone, 90% have access to a computer, and 83% have gaming consoles, all of which provide them access to social media platforms. Based on data from a recent Pew Research Center survey conducted between September and October of 2023, YouTube is the dominating platform amongst teens (93%), followed by TikTok (63%), Snapchat (60%), and Instagram (59%) (or "TikChat" "SnapBook", or "InstaFace" as Kim would intermingle these). It's no surprise that Facebook is seen as the "old people platform" and only 1 in 5 teenagers have a profile. In fact, I can see teenagers afraid to create a profile for fear of being nicknamed "Grandpa or Grandma".

The survey also measured frequency of use for each of these popular platforms. The obvious domination of YouTube is coupled with a high frequency of use. 71% of teens visit the YouTube platform daily, while 16% of those user's report using it 'Almost constantly'. TikTok, Snapchat, and Instagram are also drawing in 47-58% daily teenage users, with most of those users using it constantly or several times a day. Obviously, the frequency is quite alarming, but it is also worth pointing out the obvious in that this age group is usually not employed nor has the added responsibilities of being an adult (i.e. a lot of time on their hands).

In any case, the use of social media among teenagers and its potential impact on their mental well-being, privacy and safety has emerged into a hot topic in today's tech-savvy world. On January 31st, a Senate Judiciary Committee hearing was held with the major social media CEOs on child exploitation on their platforms and the impact they have on mental health. More studies are being conducted to understand how these platforms affect the developing minds of teenagers. Beyond the US, other countries, like China, have long implemented measures to limit the time on social media & gaming platforms due to reported addiction.

For more statistics on teen patterns and trends, and by demographic groups, visit https://www.pewresearch.org/internet/fact-sheet/teens-and-social-media-fact-sheet/.

For more on the Senate Judiciary Committee hearing, please visit https://www.judiciary.senate.gov/protecting-children-online.

NEWS YOU CAN USE

On January 26th, the San Francisco 49ers posted a TikTok video showing their players hugging furry dogs at the Humane Society in Silicon Valley. This gesture was part of their pre-game routine for the NFC Championship against the Lions, aiming to ease their nerves through some puppy therapy. The 49ers are no stranger to animal therapy. In 2018, they adopted two French bulldogs named Rookie and Zoe.

https://www.reuters.com/sports/nfl/san-francisco-49ers-undergo-puppy-therapy-before-nfc-championship-game-2024-01-28/

Oddly enough, parrots have become the main source of attraction at the Lincolnshire Wildlife Park in England. Filled with knowledge of profane language, these parrots now spout out curse words at a stifling rate, both mortifying and amusing people. For now, regulars of the park are accepting of the parrots, and for those not expecting the banter, a warning sign is present for visitors to expect to hear "every common swear word" and to shepherd children away.

https://www.npr.org/2024/01/25/1226911707/parrots-swear-profanities-british-zoo

The most interesting bet for Superbowl LVII is whether Taylor Swift will make it to the game in time after her Tokyo concert. The amount of research & analytics around this dilemma is quite deep. The whole timeline from the start of the Tokyo show to the end, average concert length, transportation times, different modes of transportation (racecar, limo, commercial airplane, private jet, or Air Force 1), possible delays, etc. has been factored into many models. The consensus is she'll make it, but she will need to fly on a private jet. On another interesting note, the United Airlines flight number from Kansas City to Las Vegas on February 9th is 1989. Coincidence?

https://www.npr.org/2024/01/30/1227866771/taylor-swift-super-bowl-eras-tour-travis-kelce

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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