



Cornerstone

ASSET MANAGEMENT GROUP, LLC

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

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At the risk of dating myself, I recall that the 1990s offer some insights into today's economic environment. In 1994, under Fed Chair Alan Greenspan, the Fed aggressively raised interest rates to control inflation and facilitate a soft landing....no recession developed. After the Fed Funds rate peaked at 6%, the stock market surged, led by the internet (dot.com's), despite Greenspan's warning of "irrational exuberance."

Today, a similar pattern is developing. Under Fed Chair Powell, the Fed raised Fed Funds to 5.25-5.5%. When the markets believed the Fed's rate hikes appeared to near an end, stocks took off again, this time fueled by Artificial Intelligence, with Mega 7 tech giants driving the S&P 500 to new highs.

But unlike the 1990s, we don't hear the war cries of irrational exuberance, and the current fiscal landscape is markedly different. In the late 1990s, budget surpluses emerged, partly due to reduced defense spending and a strong economy. Today, however, deficits are massive, have no ready solution and may pose long-term risks. This can be revealed when we look into gold prices.

During the 1990s, when the dot.com potential seemed infinite, gold lost much of its value. It dropped to less than one-third of its 1980 peak, and many governments sold off large amounts of their reserves. Today, however, gold has outpaced the SP500. Through September 30th, gold, as measured by the Dow Jones Gold Index has generated 28.4% YTD, 42.5% 1-year and 15.6% annualized over three years. The SP500 has posted 21.5%, 36.1% and 10.6% over the same time frames.

Historically, one way that governments manage debt is through inflation, which boosts nominal GDP and tax revenues while reducing real interest rates—a tactic known as financial repression. This helps lower the debt burden but hurts bond investors, who face negative real returns. The recent rise in the price of gold may suggest that the markets are pricing in these risks.



As we move forward, the parallels to the 1990s stock market may be evident, but today's fiscal challenges are far more significant. We at Cornerstone have always believed that gold has a home in our clients' diversified portfolios. Not only does it serve as a diversifier, but it also acts as a hedge in a world where deficits, inflation, and economic uncertainty persist.

Unlike the 1990s, today's federal deficit, according to the Congressional Budget Office, is expected to remain above 5% of GDP for the rest of the decade and climb to 6.1% by 2034. The U.S. could surpass its debt limit at over 150% of GDP, forcing already needed reforms to Social Security and Medicare as part of broader fiscal changes (i.e. controlled spending if that is even possible).

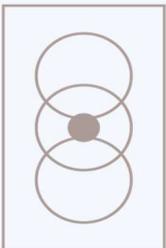
Here is your look at developments in the global marketplace.





POSITIVE DEVELOPMENTS

- Consumer sentiment rose to its highest level since May 2024, as inflation expectations fell to the lowest level since December 2020. Consumer sentiment is now roughly 40% above its June 2022 low, “though consumers remain guarded as the looming election continues to generate substantial uncertainty,” the Conference Board warned.
- The consumer continues to spend! Retail sales rose 0.1% in August, .3% higher than the consensus estimate. Note, the data are reported in nominal dollars, meaning they are not adjusted for inflation and one important detail of this report is the contraction in spending at food and beverage stores and gas stations, which fell 0.7% and 1.2%, respectively. The drawdown in spending in these sectors is not entirely due to a drop in volume, but a fall in prices. The trend over the past several months shows that consumption continues to drive economic expansion.
- Financial futures, following the recent rate cut by the Fed, now expect a 25bps cut at every Fed meeting over the next 6 meetings through June 2025, meaning the central bank would lower the federal funds rate 200 bps to 3.33%. This would put Fed funds rate close to Treasury rates (where they should be).
- The Fed’s preferred measure of inflation, Personal Consumption Expenditures (PCE) rose 0.1% in August and are up 2.2% in the past year compared to a 3.4% gain in the year ending in August 2023. “Core” prices, which exclude the volatile food and energy categories, also rose 0.1% in August and are up 2.7% versus a year ago, a notable improvement from the 3.8% reading for the 12 mos. ending August 2023.



NEUTRAL DEVELOPMENTS

- Both the headline and core Producer Price Indexes were a tick above expectations in August, led by services. August’s yearly inflation rate was 1.7% (vs 1.8% expected), easing from its recent peak of 2.7% in June, which was the highest since March 2023. It was at a recent low of 0.8% last November.
- The Consumer Price Index (CPI) climbed 2.5% in August from a year earlier, a much cooler pace of inflation than July’s 2.9% and down sharply from a peak of 9.1% back in 2021. Even though the pace of inflation has declined to around 2.5% per year, that will not reverse the damage over the past 3 years. From 2021 to 2024, the cumulative price increases in the CPI total more than 21%!
- AI has created significant demand for electricity and utilities are looking to be a compelling investment case, yielding around 3% in dividends and remaining cheaper than the S&P 500. Historically, they have delivered an impressive 11% annual return, benefiting from growing power demands for AI data centers. With electricity shortages and the need for significant capacity increases, a U.S. nuclear renaissance may be on the horizon, including potential partnerships with hyperscale cloud companies. AI demand is outpacing their ability to create power sources...badly needed.



- China's economy remains weak and continues to export goods deflation and to depress commodity prices, especially the price of oil. In efforts to stimulate the economy, the Chinese government has facilitated a 50-basis point reduction in citizen mortgage rates, lifted housing restrictions and is actively invoking a series of fiscal spending measures. The Chinese markets have rallied in September as a result.



NEGATIVE DEVELOPMENTS

- Homeownership growth has stalled after rising steadily before the pandemic. Affordability is the main challenge, with home prices surging to a median of \$423K while incomes have lagged behind. Rising rents make it harder for potential buyers to save for down payments, leading many to rely on family or retirement savings. Builders face challenges like labor shortages, higher material costs, and economic uncertainty, all of which are limiting new housing starts and squeezing their profit margins.
- By lowering interest rates, the Fed is indirectly enabling continued federal borrowing. As of August, the federal govt. budget deficit reached \$2.1T over the past 12 mos., raising public Treasury debt to \$26.9T. A critical observation regarding the recent rate cut is the risk of widening the federal deficit. Both major political platforms are promoting fiscal strategies that may further increase government spending, which could have inflationary consequences. Regardless of the outcome in November, we anticipate that legislative gridlock may moderate any extreme fiscal policies.
- *New* single-family home sales declined 4.7% in August but are up 9.8% from a year ago. While sales took a breather in August, they followed the largest monthly gain in nearly 2 yrs. The big question for the housing market is whether the Fed cutting rates will be enough to start a new upward trend in sales, or if buyers will continue to delay purchases in anticipation of even lower rates in the future.



THE MARKETS

U.S. stocks were higher across all capitalizations in September despite fears of a historically bad month for the markets. Utilities, consumer discretionary and industrials drove the markets higher last month while health care, energy and consumer staples were laggards.

Across the pond, the Chinese stock market received some stimulus as regulators will provide the equivalent of \$71B to help brokers, insurance companies, and funds buy stocks. In addition, they will also provide \$114B to help companies buy back shares. Chinese stocks have surged. European markets were also higher last month as the European Central Bank cut rates giving markets a boost.

In the bond market, U.S. Treasury yields rose after investors took comments from Fed Chair Powell as a possible hint that coming cuts to rates may be more traditional sized. Powell said that rate cuts are not something the Fed needs to work quickly on. After his comments, traders were betting on just a 35% probability the Fed will cut rates by another half a percentage point in November. That's down from a 53% chance seen the day before his comments



U.S Index	Last Month (% return)	YTD (%)
S&P 500	1.6	20.4
Dow Jones	1.7	20.5
NASDAQ Comp	2.1	18.0
Russell 2000	0.2	9.6

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



Topic of the Month: The Evolution of Pet Ownership - From Wild to Wired

By: Brett Suchy



Most that know me understand my liking for animals, particularly the main household pet that I am not allergic to, dogs. Whether it's my love and dedication to my two 70 lbs. fur-balls, Sky and Snoop, or the fact that I pay more attention to my friend's dogs than my friends (not entirely true, but the point is clear). It wasn't until recently, as I was scrolling through Netflix, that I came across a documentary "Inside the Mind of a Dog". This was an eye opener, and I certainly gained a better understanding of how dogs evolved over time, think, feel and interact with humans (which I thought I was an expert at for 2 decades). At any rate, the show provoked me to write about the evolution of our relationships with pets, the growing trend of ownership, and the tech-evolution in pet care.



The impact of pets on a lot of our lives is very visible. A dog sitting at your feet, or on your lap, while watching the Chicago White Sox, Bears, or Blackhawks get crushed, or the pervasive purr of a cat in the background certainly makes a blowout loss more tolerable. However, pets today are way more than just our fondest companions...they've become a much larger conversation that involves growing ownership in both our staple companions and even exotic ones, and a booming pet care technology industry.

There is no doubt, as we clung to the inside of our houses during the COVID-19 pandemic, that there were many people and families willing to entertain another responsibility. I mean, after all pets provide companionship, stress reduction, and quite frankly, are the best listeners when we need to let out some steam. We all strived for these things during that the pandemic. According to the American Pet Products Association (APPA), nearly 11 million US households adopted a new pet during the pandemic, which includes both dogs and cats. Particularly, the numbers were high in the first year. In addition, in a survey done by APPA, households with a pet rose from 67% in 2019 to 70% in 2020. And, according to the American Society for the Prevention of Cruelty to Animals (ASPCA), reported a 40% increase in foster applications.



But, pets didn't make it into our home by accident, or recently. Researchers believe, based on genetic studies and archaeology, domestication of dogs began 15,000-40,000 years ago, and cats, 9,000 years ago. In all those years dogs and cats have evolved in very sophisticated ways that have allowed them to communicate with us without a vocal language to share. Dogs, for example, have become experts in body language, tail position, facial expressions and eye contact based on their needs (i.e. belly rub, stroll through the neighborhood, tug of war, or treat)...that is when they're not passed out. One of the most interesting evolutions in domesticated dogs is they have developed a trait called the "whale eye", that is the ability to show the whites of their eyes. This is not seen in their wild relatives like wolves, as wolves choose to avoid direct eye contact as it could be considered a sign of aggression or dominance. Dogs, on the other hand embrace it and over many centuries, have used this trait to help them better communicate emotion. Specifically, dogs will use the "whale eye" when communicating discomfort, fear or stress. Cats, on the other hand, seem to have perfected their own form of communication; almost training us on how to respond to their needs. I find quite often when looking into a cat's eyes that I am not the smartest one in the room.

Of course, dogs and cats aren't the only pets. There are also many exotic pet fans out there, and, with recent growth trends in pet ownership, exotic pets have also become a growing adventure. For instance, over the past three years, Florida has seen a 12% increase in people owning reptiles, birds, and other unique pets. However, ownership of exotic pets certainly comes with its set of challenges, including proper care & environment, specific diets, legal issues, and it can often require a higher level of responsibility and more knowledge about the animal than our staple companions.

In the modern technological world, humans are not the only ones benefiting. If you thought you had the newest and coolest squeaky toy, or electronic hairbrush, you may want to think again or think again in a few months as competition heats up. The pet tech market is booming and is projected to grow by 25% by 2027. This includes tech such as smart collars, automated feeds, GPS trackers, and modern pet health monitors. Perhaps soon enough I won't have to worry if Snoop is eating my shoe, because my phone will tell me that he's sleeping. Also, health-related pet tech should make it easier to monitor serious conditions that can certainly save \$ and a few trips to the vet, and perhaps, help ease the burden of end of life, which is never easy.



In finale, pets – whether exotic or traditional, have and will continue to offer us way more than companionship. They have evolved with us over millennia, most have adapted to our lives, and just now, are beginning to participate in breakthrough technologies. The ways we connect with our pets go beyond words, and thus, we embrace the responsibility of taking care of them and gladly share our journeys. So, for those animal owners and animal lovers, the next time you're watching your NFL team lose with a pet at your feet or across the room, or if you just need some comfort, take some time to reflect on the deep bonds that we've developed with them over time, and how they have become both our best friends and family.

[Leading Pet Industry Association | American Pet Products Association](#)
[ASPCA | American Society for the Prevention of Cruelty to Animals](#)
<https://www.fortunebusinessinsights.com>



NEWS YOU CAN USE

Well, perhaps we poked the bear, calling out our beloved White Sox two months back for potentially going down as the most losing team ever in baseball. Clocking their 121st loss of the season on September 27th, the 2024 White Sox now hold the modern MLB-era crown, taken from the 1962 expansion Met's, who went 40-120 in their first season. 17,000 fans flocked to the Sox stadium on September 24th to catch a glimpse at a record-breaker L #121, only to see the White Sox improve their record to 1-94 when trailing after seven innings. The Sox refused to set the record in Chicago, despite a nasty crowd, and left it to the Detroit Tigers in Detroit to put the nail in the coffin. At any rate, White Sox fans are quick to note the one positive out of this season "We made history!"

<https://www.mlb.com/news/white-sox-record-121st-loss-of-2024-season>

As stated earlier in the letter, the technological advancements in AI, and the need for data generation and energy demand, has brought nuclear power back to the forefront. This month Microsoft inked a 20-year power supply deal with Constellation Energy Group that would restore one of the country's most iconic energy sites, a unit of the Three Mile Island nuclear plant, and keep it online for decades. The move by Microsoft supports their demand for carbon-free energy, and aligns with their clean energy initiatives. No official timeline has been announced, however experts suggest reopening a decommissioned power plan could take several years +.

<https://www.technologyreview.com/2024/09/26/1104516/three-mile-island-microsoft/>

NASA has approved next month's launch of the Europa Clipper spacecraft to Jupiter's moon Europa after reviewing its ability to endure intense radiation. There were concerns earlier this year regarding the reliability of its transistors, but tests confirmed they can handle the \$5 billion mission. Liftoff is scheduled for October 10th aboard a SpaceX Falcon Heavy rocket, with a three-week launch window. The spacecraft, will orbit Jupiter and perform 49 flybys of Europa, and it aims to determine if the moon's subsurface ocean could support life. The mission will take six years to reach Jupiter and involves mapping Europa's icy surface.

<https://apnews.com/article/jupiter-europa-clipper-nasa-d5b5a724b1802c601400e6d38fef06dd>

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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