ALBION FINANCIAL GROUP

Wealth Advisors, Investment Managers

Weekly Market Recap - 09/03/21

Market Commentary

Weekly Recap:

News flow was sparse last week as much of Wall Street wrapped up summer holidays ahead of the 3-day weekend. The most significant economic data point was the monthly jobs report, which showed disappointing job growth relative to consensus estimates:
* Nonfarm payrolls added = +235k (consensus estimate = +733k)
* U-3 Unemployment rate = 5.2% (previous month = 5.4%)
* U-6 Underemployment rate = 8.8% (previous month = 9.2%)
* Avg Hourly Earnings y/y = +4.3% (previous month = +4.1%)

Other economic data was mixed. On the positive side, unemployment claims fell, services and manufacturing PMIs remained solidly in expansionary territory, and construction spending rose. On a more challenging note, the Conference Board's Consumer Confidence Index fell significantly in August, a move that was presaged by a similar decline in the Univ. of Michigan gauge earlier in the month.

As a result, equity markets took a somewhat more cautious tone last week, with defensive sectors (real estate, healthcare, staples, and utilities) rallying while cyclicals (industrials, materials, energy, and financials) pulled back a bit.

In bond markets, the US Treasury yield curve steepened in response to the payrolls miss, as investors pared back their assumptions about near term tapering and rate hikes while also adjusting longer term inflation expectations slightly. Investment grade credit spreads were stable.

Albion's "Four Pillars":

*Economy & Earnings - US GDP growth was +6.3% annualized in Q1 and +6.6% in Q2, with estimates of +6.8% in Q3, and +5.6% in Q4. Meanwhile, EPS for the S&P 500 is forecast to rise to an all-time calendar year record in 2021.

*Equity Valuation - The S&P 500's forward P/E of 21x is above the historical average, and long-term valuation metrics like CAPE (cyclically adjusted P/E ratio) suggest that compound annual returns over the coming decade are likely to be in the single digits. That said, lower-than-historical equity returns may be justified in the context of ultra-low yields on alternatives like bonds and cash.

*Interest Rates - Rates remain very low by historical standards, supporting equity valuations and lowering corporate borrowing costs.

*Inflation - Inflation is currently high on a y/y basis as the economy laps the early months of the pandemic, but most of the drivers appear transitory. The Fed has communicated greater tolerance for short periods of above-target inflation, but longer-term inflation expectations remain well anchored.

Market Data

Equity Indices	Close	Index Total Returns (%) 1 Week	MTD	YTD	1 Year	3y Cum.
S&P 500	4,535	0.6%	0.3%	22.0%	33.2%	65.1%
Dow Jones Indus. Avg.	35,369	-0.1%	0.1%	17.1%	27.4%	45.6%
NASDAQ	15,364	1.6%	0.7%	19.7%	35.0%	94.8%
S&P Midcap 400	2,761	-0.2%	0.3%	20.6%	46.7%	41.6%
Russell 2000 (Small Cap)	2,292	0.7%	0.8%	16.8%	49.9%	36.9%
MSCI EAFE (Int'l Dev Mkt Eq)	2,389	1.8%	1.5%	13.6%	29.2%	33.6%
MSCI EM (Emerging Mkt Eq)	1,316	3.4%	0.6%	3.6%	21.3%	35.9%

Fixed Income	Yield	Index Total Returns (%) 1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	1.32%	-0.2%	-0.2%	-2.6%	-5.0%	20.0%
U.S. Bonds (Aggregate)	1.43%	-0.1%	-0.1%	-0.8%	-0.7%	17.1%
Global Bonds	1.04%	0.3%	0.2%	-2.1%	0.7%	14.7%
U.S. Munis	0.98%	0.0%	0.0%	1.5%	3.4%	16.0%
U.S. Investment Grade Corp	2.01%	-0.1%	-0.1%	-0.3%	1.5%	24.8%
U.S. High Yield Corporates	3.77%	0.4%	0.2%	4.7%	10.2%	23.1%

US Interest Rates	Levels (%) 9/3/21	8/27/21	8/31/21	12/31/20	9/3/20	9/3/18
2y Treasuries	0.21	0.22	0.21	0.12	0.13	2.63
10y Treasuries	1.32	1.31	1.31	0.91	0.63	2.86
30y Treasuries	1.94	1.92	1.93	1.64	1.36	3.02
3m LIBOR (USD)	0.12	0.12	0.12	0.24	0.25	2.32
30y Fixed Mortgage	2.87	2.87	2.87	2.67	2.93	4.52
Prime Rate	3.25	3.25	3.25	3.25	3.25	5.00

Commodity Prices	Levels 9/3/21	8/27/21	8/31/21	12/31/20	9/3/20	9/3/18
Oil (WTI)	69.29	68.74	68.50	48.52	41.37	69.80
Gasoline	3.18	3.15	3.17	2.25	2.23	2.83
Natural Gas	4.71	4.37	4.38	2.54	2.49	2.92
Gold	1,828	1,818	1,814	1,898	1,931	1,201

Currency Crosses	Levels 9/3/21	8/27/21	8/31/21	12/31/20	9/3/20	9/3/18
$ per £	1.39	1.38	1.38	1.37	1.33	1.29
$ per €	1.19	1.18	1.18	1.22	1.19	1.16
¥ per $	109.7	109.8	110.0	103.3	106.2	111.1
$ per Bitcoin	50,153	48,922	47,009	28,996	10,786	7,299

Macroeconomic Data	Value	Date
Fed Funds Target (Floor)	0.0%	09/03/21
Inflation (Core PCE Def)	3.6%	07/31/21
Unemployment (U-3)	5.2%	08/31/21
GDP Growth (Q/Q SAAR)	6.6%	06/30/21
ISM Manufacturing PMI	59.9	08/31/21
Consumer Confidence	113.8	08/31/21

Data Source:
Bloomberg, FactSet

Albion's Dashboard of Key Leading Economic Indicators as of 09/03/21

- Initial Jobless Claims 4wma (355k) - Stronger: weekly claims are gradually declining
- Conference Board LEI (+10.6%) - Stronger: 5 consecutive months of significant improvement
- Building Permits (1,630k) - Steady: slowing but still above pre-pandemic levels
- Corporate Bond Spreads (0.83%) - Steady: IG spreads are still near multi-decade tights
- Treasury Yield Curve (+112bp) - Steady: 2s10s curve stable after flattening in Q2
- Consumer Confidence (113.8) - Weaker: significant pullback in August
- Real Final Sales (+11.3%) - Stronger: double-digit growth in Q1 and Q2 of 2021

Legend: • = All Clear; • = Minor Concern; • = Strong Warning

Sector Total Returns for the Week Ending 09/03/21

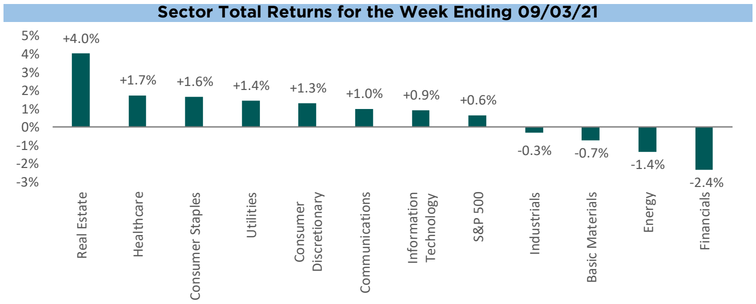
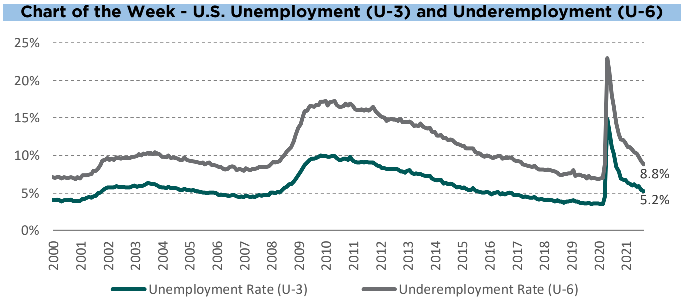


Chart of the Week - U.S. Unemployment (U-3) and Underemployment (U-6)



YTD Sector Total Returns as of 09/03/21