



Wealth Advisors,
Investment Managers

Weekly Market Recap - 09/24/21

Market Commentary

Weekly Recap:

The story of last week was rising bond yields, which ratcheted higher on Thursday and Friday in the wake of Wednesday afternoon's FOMC statement and the ensuing press conference. While in Albion's view the Fed's message was consistent with prior statements regarding the condition of the economy and progress towards its dual mandate, some investors may have hoped that the mild market selloff during the first half of September would have prompted a more dovish turn in the Fed's policy outlook. Those investors appear to be disappointed that the Fed has largely stayed the course, and they have responded by pushing bond yields to their highest levels since the end of Q2. By week's end, 2y Treasury yields were up 5bp, 10y yields up 9bp, and 30y yields up 8bp.

In conjunction with rising rates, shorter-duration equity benchmarks like the Dow and small/mid cap indices outperformed the longer-duration Nasdaq. Meanwhile, international indices were once again pulled lower by China, where investors continue to watch the unfolding Evergrande saga with great interest.

Economic news was mixed last week. Housing activity remains strong, with starts and permits both rising sequentially in August from already-robust levels. New home sales rose as well, with existing home sales in line with consensus estimates. Conversely, initial jobless claims rose for the second consecutive week, and manufacturing surveys from the Chicago Fed, Kansas City Fed, and Markit all came in below expectations.

Albion's "Four Pillars":

*Economy & Earnings - US GDP growth was +6.3% annualized in Q1 and +6.6% in Q2, with estimates of +5.0% in Q3, and +5.1% 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	4,455	0.5%	-1.4%	19.9%	39.3%	61.1%
Dow Jones Indus. Avg.	34,798	0.6%	-1.5%	15.3%	32.3%	40.1%
NASDAQ	15,048	0.0%	-1.3%	17.3%	42.0%	93.5%
S&P Midcap 400	2,699	0.8%	-1.9%	18.1%	52.6%	39.3%
Russell 2000 (Small Cap)	2,248	0.5%	-1.1%	14.6%	56.4%	37.1%
MSCI EAFE (Int'l Dev Mkt Eq)	2,342	-0.3%	-0.5%	11.4%	31.4%	28.7%
MSCI EM (Emerging Mkt Eq)	1,265	-1.0%	-3.1%	-0.1%	22.5%	31.3%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	1.45%	-0.7%	-1.3%	-3.7%	-5.7%	20.7%
U.S. Bonds (Aggregate)	1.53%	-0.4%	-0.5%	-1.2%	-0.6%	17.6%
Global Bonds	1.13%	-0.5%	-1.0%	-3.3%	0.2%	13.6%
U.S. Munis	1.02%	-0.2%	-0.2%	1.3%	3.1%	16.7%
U.S. Investment Grade Corp	2.06%	-0.4%	-0.3%	-0.5%	2.3%	25.4%
U.S. High Yield Corporates	3.89%	-0.1%	0.3%	4.9%	12.4%	22.8%

US Interest Rates	Levels (%)					
	9/24/21	9/17/21	8/31/21	12/31/20	9/24/20	9/24/18
2y Treasuries	0.27	0.22	0.21	0.12	0.13	2.82
10y Treasuries	1.45	1.36	1.31	0.91	0.67	3.09
30y Treasuries	1.98	1.90	1.93	1.64	1.41	3.23
3m LIBOR (USD)	0.13	0.12	0.12	0.24	0.23	2.37
30y Fixed Mortgage	2.88	2.86	2.87	2.67	2.90	4.65
Prime Rate	3.25	3.25	3.25	3.25	3.25	5.00

Commodity Prices	Levels					
	9/24/21	9/17/21	8/31/21	12/31/20	9/24/20	9/24/18
Oil (WTI)	73.98	71.97	68.50	48.52	40.31	72.08
Gasoline	3.19	3.19	3.17	2.25	2.19	2.86
Natural Gas	5.14	5.11	4.38	2.54	2.25	3.04
Gold	1,750	1,754	1,814	1,898	1,868	1,199

Currency Crosses	Levels					
	9/24/21	9/17/21	8/31/21	12/31/20	9/24/20	9/24/18
\$ per £	1.37	1.37	1.38	1.37	1.27	1.31
\$ per €	1.17	1.17	1.18	1.22	1.17	1.17
¥ per \$	110.7	109.9	110.0	103.3	105.4	112.8
\$ per Bitcoin	42,982	46,990	47,009	28,996	10,632	6,626

Macroeconomic Data	Value	Date
Fed Funds Target (Floor)	0.0%	09/24/21
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

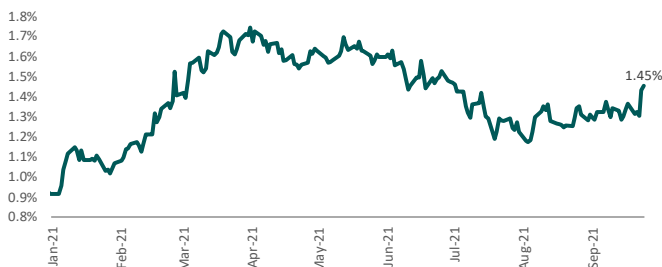
Data Source:
Bloomberg, FactSet

Albion's Dashboard of Key Leading Economic Indicators as of 09/24/21

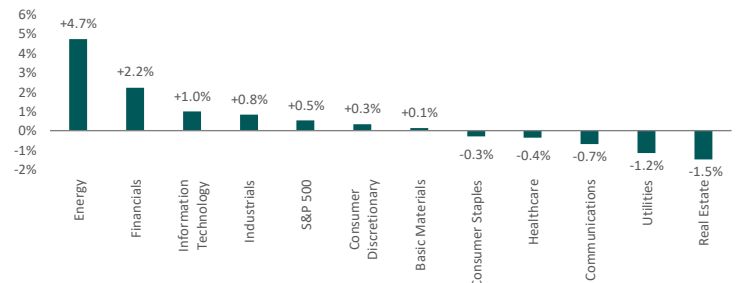
- Initial Jobless Claims 4wma (336k) - Steady: claims up slightly but remain near pandemic lows
- Conference Board LEI (+10.0%) - Stronger: 6 consecutive months of significant improvement
- Building Permits (1,721k) - Steady: housing activity remains above pre-pandemic levels
- Corporate Bond Spreads (0.78%) - Steady: IG spreads remain near multi-decade tight
- Treasury Yield Curve (+118bp) - 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

Chart of the Week - 10y US Treasury Yield



Sector Total Returns for the Week Ending 09/24/21



YTD Sector Total Returns as of 09/24/21

