



Wealth Advisors,  
Investment Managers

## Market Commentary

### Weekly Recap:

Stocks moved lower last week on a cocktail of soft economic data and a reminder from Jerome Powell that the Fed is not done raising interest rates. On the latter point, Powell testified before the US Senate Banking Committee that "it will be appropriate to raise rates again this year, and perhaps twice." Fed fund futures have not yet bought into the notion of multiple additional rate hikes this year, but are now taking Powell at his word that there will be one more, and the no rate cuts will occur until at least early 2024.

Macro data was mostly weaker last week, with one exception: housing. Residential building permits rose to nearly 1.5 million, while housing starts jumped to more than 1.6 million, with significant increases in both single-unit and multi-family. Absent a recession, it increasingly appears that the cyclical trough in US housing activity may have occurred around the start of this year.

Otherwise, macro data released last week was not encouraging. Initial jobless claims printed at 264k, pulling the 4-week moving average above 250k for the first time since November of 2021. Meanwhile, S&P Global's US Composite PMI slipped sequentially in the preliminary June reading, with m/m declines in the manufacturing and services components. And finally, the Conference Board's Leading Economic Index (LEI) fell sequentially for the 14th consecutive month.

The consequence of all this was a broad-based pullback in US stocks, with cyclical sectors (industrials, materials, financials, and energy) all underperforming as the near-term direction of the economy became the primary concern.

### Albion's "Four Pillars":

**\*Economy & Earnings** - The US economy enjoyed a strong second half of 2022, but growth has slowed in early 2023 and corporate operating margins have fallen as labor and input cost pressures bite. Albion's base case expectation is that the US economy will enter recession in 2023, putting downside pressure on earnings.

**\*Valuation** - The S&P 500's forward P/E of 19x is above the long run average, so valuation could be a mild headwind to future returns. More predictive metrics like CAPE, Tobin's Q, and the Buffett Indicator (Mkt Cap / GDP) suggest that compound annual returns over the next decade are likely to be in the mid single digits.

**\*Interest Rates** - Rates rose dramatically in 2022 in response to a sharp pivot in monetary policy, and have remained elevated in 2023 as progress on inflation has been slower than hoped. Futures markets are currently pricing one additional 25bp rate hike over the summer, with no rate cuts expected before year-end.

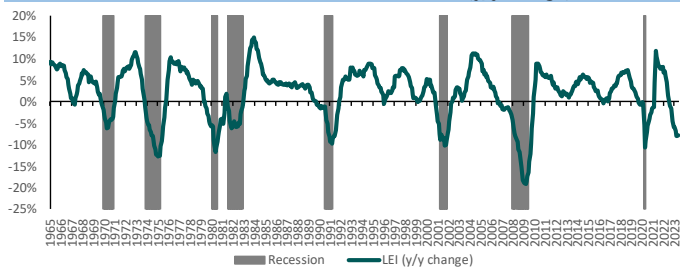
**\*Inflation** - After reaching 40yr highs in spring of 2022, inflation has moderated somewhat over the past 12 months. Goods inflation has fallen due to softening demand and excess inventory, while services inflation remains elevated, in part due to shelter costs which are somewhat lagged.

### Albion's Dashboard of Key Leading Economic Indicators as of 06/23/23

- Initial Jobless Claims (256k 4wk m/a) - Weaker: claims have gradually risen in the first half of 2023
- Conference Board LEI (-7.9% y/y) - Weaker: has declined significantly since peaking in Dec 2021
- Residential Building Permits (1,491k) - Stronger: May print was a 7-month high
- Corporate Bond Spreads (1.22%) - Steady: rallied on debt ceiling resolution and easing bank concerns
- Treasury Yield Curves (88.9% inv) - Steady: inversion deepened slightly following June FOMC
- Consumer Confidence (102.3) - Weaker: expectations component near post-pandemic low
- Real Final Sales (+2.6% y/y) - Stronger: has rebounded after a weak first half of 2022

Legend: ● = All Clear; ● = Caution; ● = Strong Warning

### Chart of the Week: Conference Board LEI (y/y change)



## Weekly Market Recap - 06/23/23

### Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
S&P 500	4,348	-1.4%	4.1%	14.2%	16.6%	45.6%
Dow Jones Indus. Avg.	33,727	-1.7%	2.6%	2.9%	12.3%	37.0%
NASDAQ	13,493	-1.4%	4.4%	29.5%	21.2%	36.3%
S&P Midcap 400	2,447	-2.5%	4.6%	4.3%	13.5%	46.8%
Russell 2000 (Small Cap)	1,754	-2.9%	4.2%	4.2%	8.1%	31.5%
MSCI EAFE (Int'l Dev Mkt Eq)	2,098	-3.3%	2.9%	10.3%	18.1%	25.5%
MSCI EM (Emerging Mkt Eq)	992	-3.6%	3.9%	5.1%	3.1%	6.4%
MSCI World	2,902	-2.0%	3.7%	12.6%	15.8%	36.0%
S&P Global 1200	3,211	-2.0%	3.8%	12.7%	16.4%	38.1%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	3.73%	0.3%	-0.7%	2.3%	-2.4%	-18.6%
U.S. Bonds (Aggregate)	4.72%	0.1%	-0.1%	2.4%	-0.3%	-11.0%
Global Bonds	3.79%	-0.3%	0.3%	1.7%	-1.1%	-14.2%
U.S. Munis	3.50%	0.3%	1.0%	2.7%	3.6%	-1.6%
U.S. Investment Grade Corp	5.46%	0.1%	0.3%	3.0%	1.4%	-10.0%
U.S. High Yield Corporates	9.03%	-0.8%	0.8%	4.5%	6.8%	7.1%

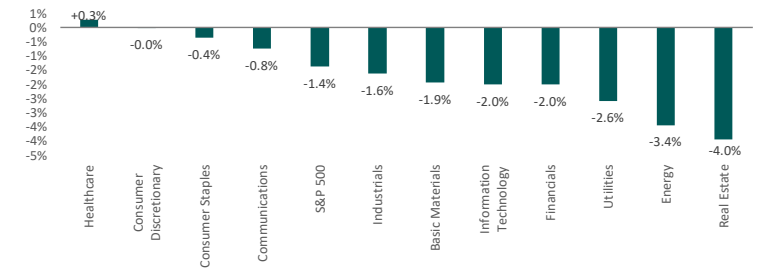
US Interest Rates	Levels (%)					
	6/23/23	6/16/23	5/31/23	12/30/22	6/23/22	6/23/20
2y Treasuries	4.74	4.71	4.40	4.43	3.01	0.19
10y Treasuries	3.73	3.76	3.64	3.87	3.09	0.71
30y Treasuries	3.81	3.85	3.86	3.96	3.20	1.49
Fed Funds (Effective Rate)	5.07	5.08	5.08	4.33	1.58	0.08
SOFR (USD)	5.05	5.05	5.08	4.30	1.44	0.07
30y Fixed Mortgage	6.67	6.67	6.76	6.41	5.81	3.13

Commodity Prices	Levels					
	6/23/23	6/16/23	5/31/23	12/30/22	6/23/22	6/23/20
Oil (WTI)	69.16	71.78	68.09	80.26	104.27	40.37
Gasoline	3.58	3.58	3.57	3.20	4.93	2.16
Natural Gas	2.73	2.63	2.27	4.48	6.24	1.64
Gold	1,921	1,958	1,963	1,824	1,823	1,768

Currency Crosses	Levels					
	6/23/23	6/16/23	5/31/23	12/30/22	6/23/22	6/23/20
\$ per E	1.27	1.28	1.24	1.21	1.23	1.25
\$ per €	1.09	1.09	1.07	1.07	1.05	1.13
¥ per \$	143.7	141.8	139.3	131.1	135.0	106.5
\$ per Bitcoin	30,929	26,395	27,117	16,579	20,795	9,630

Macroeconomic Data	Value	Date	Next Rel.	Data Sources:	
				6/23/23	6/23/20
Fed Funds Target (Floor)	5.00%	06/23/23	07/26/23		
Inflation (Core PCE Deflator)	4.7%	04/30/23	06/30/23		
Inflation (Headline CPI)	4.0%	05/31/23	07/12/23		
Unemployment (U-3)	3.7%	05/31/23	07/07/23		
GDP Growth (Q/Q SAAR)	1.3%	03/31/23	06/29/23		
ISM Manufacturing PMI	46.9	05/31/23	07/03/23		
Consumer Confidence	102.3	05/31/23	06/27/23		

### Sector Total Returns for the Week Ending 06/23/23



### YTD Sector Total Returns as of 06/23/23

