

Weekly Market Recap - 06/02/23

Market Commentary

Weekly Recap:

Stocks and bonds rallied in unison last week as the US debt ceiling drama was resolved without a government default. Unlike the prior week, where gains were limited to a relative handful of A/I and chip-related stocks, last week's move higher in stocks was broad based. All sectors in the S&P 500 finished in the green, with cyclical and growth stocks leading the way while staples lagged the rally a bit.

Bonds rallied too, as whatever default premium had been baked into Treasury yields was quickly removed by investors. Public commentary from Fed officials favoring a June pause was also helpful, driving the odds of a 25bp hike next week from 70% at the end of the prior week to just 30% by Friday's close. Credit spreads finished modestly tighter as well.

On the economic front, the main message from incoming data was that labor markets remain strong. JOLTS job openings reversed a recent trend towards normalization with a print of 10.1 million, ADP employment significantly exceeded expectations, and jobless claims were steady.

Meanwhile, the monthly jobs report from the BLS showed strong payroll gains, but also a modest uptick in the unemployment rate, a sequential decline in hours worked, and mild deceleration in the rise in average hourly earnings:

- * Change in Nonfarm Payrolls = +339k (cons. est. +195k)
- * Unemployment rate = 3.7% (prior month = 3.4%)
- * Average weekly hours = 34.3 (prior month = 34.4)
- * Average hourly earnings = +4.3% y/y (prior month = +4.4% y/y)

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 18x is above the long run average, suggesting that 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 the possibility of rate cuts near the end of the year.

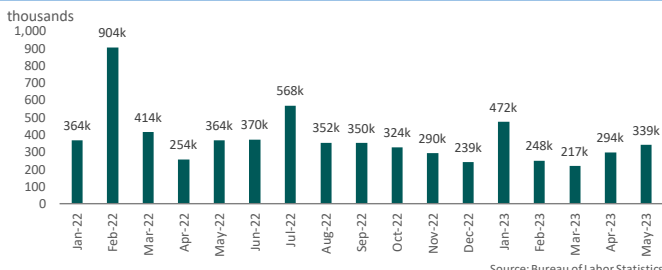
*Inflation - After reaching 40yr highs in spring of 2022, inflation has moderated somewhat over the past 12 months. Goods inflation has fallen due to softening demand and excess inventory, while services inflation remains elevated, in part due to shelter costs which are somewhat lagged.

Albion's Dashboard of Key Leading Economic Indicators as of 06/02/23

- Initial Jobless Claims (230k 4wk m/a) - Weaker: claims have gradually risen in the first half of 2023
- Conference Board LEI (-8.0% y/y) - Weaker: has declined significantly since peaking in Feb 2022
- Building Permits (1,417k) - Weaker: still trending lower despite short-lived rebound in Feb 2023
- Corporate Bond Spreads (1.24%) - Tighter: rallying on debt ceiling resolution and easing bank concerns
- Treasury Yield Curves (84.4% inv) - Steady: overall yield curve inversion is beginning to inflect
- 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: Monthly Nonfarm Payrolls Added



Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
S&P 500	4,282	1.9%	2.5%	12.4%	4.3%	-45.8%
Dow Jones Indus. Avg.	33,763	2.2%	2.6%	2.9%	3.8%	-39.4%
NASDAQ	13,241	2.1%	2.4%	27.0%	8.5%	-41.1%
S&P Midcap 400	2,447	2.6%	4.1%	3.8%	0.0%	45.6%
Russell 2000 (Small Cap)	1,754	3.3%	4.7%	4.6%	-2.0%	34.1%
MSCI EAFE (Int'l Dev Mkt Eq)	2,098	0.9%	2.8%	10.2%	6.7%	29.7%
MSCI EM (Emerging Mkt Eq)	984	1.3%	2.7%	3.9%	-4.2%	10.6%
MSCI World	2,873	1.7%	2.6%	11.4%	3.9%	37.7%
S&P Global 1200	3,176	1.6%	2.5%	11.4%	4.2%	39.7%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	3.69%	1.1%	-0.5%	2.5%	-3.5%	-18.6%
U.S. Bonds (Aggregate)	4.65%	1.0%	-0.3%	2.2%	-2.2%	-10.8%
Global Bonds	3.69%	1.1%	0.2%	1.6%	-3.8%	-13.4%
U.S. Munis	3.58%	0.9%	0.4%	2.0%	0.7%	-1.6%
U.S. Investment Grade Corp	5.40%	1.1%	-0.1%	2.7%	-1.6%	-8.9%
U.S. High Yield Corporates	8.54%	1.1%	0.9%	4.5%	0.9%	8.8%

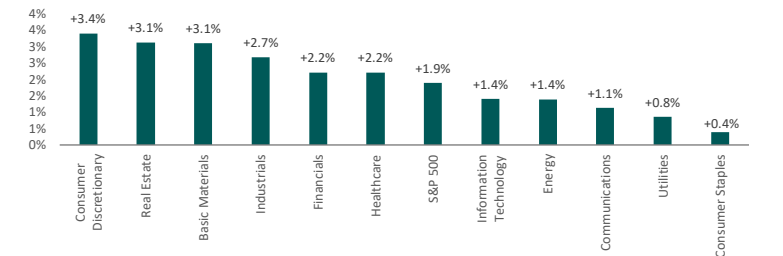
US Interest Rates	Levels (%)					
	6/2/23	5/26/23	5/31/23	12/30/22	6/2/22	6/2/20
2y Treasuries	4.50	4.56	4.40	4.43	2.63	0.16
10y Treasuries	3.69	3.80	3.64	3.87	2.91	0.69
30y Treasuries	3.89	3.96	3.86	3.96	3.07	1.49
Fed Funds (Effective Rate)	5.08	5.08	5.08	4.33	0.83	0.06
SOFR (USD)	5.07	5.06	5.08	4.30	0.79	0.07
30y Fixed Mortgage	6.93	6.76	6.76	6.41	5.09	3.15

Commodity Prices	Levels					
	6/2/23	5/26/23	5/31/23	12/30/22	6/2/22	6/2/20
Oil (WTI)	71.74	72.67	68.09	80.26	116.87	36.81
Gasoline	3.56	3.58	3.57	3.20	4.76	1.98
Natural Gas	2.17	2.18	2.27	4.48	8.49	1.78
Gold	1,948	1,946	1,963	1,824	1,869	1,728

Currency Crosses	Levels					
	6/2/23	5/26/23	5/31/23	12/30/22	6/2/22	6/2/20
\$ per £	1.25	1.23	1.24	1.21	1.26	1.26
\$ per €	1.07	1.07	1.07	1.07	1.07	1.12
¥ per \$	139.9	140.6	139.3	131.1	129.8	108.7
\$ per Bitcoin	27,184	26,759	27,117	16,579	30,225	9,523

Macroeconomic Data	Value	Date	Next Rel.	Data Sources:	
				Bloomberg	FactSet
Fed Funds Target (Floor)	5.00%	06/02/23	06/14/23		
Inflation (Core PCE Deflator)	4.7%	04/30/23	06/30/23		
Inflation (Headline CPI)	4.9%	04/30/23	06/13/23		
Unemployment (U-3)	3.7%	05/31/23	07/07/23		
GDP Growth (Q/Q SAAR)	1.1%	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 06/02/23



YTD Sector Total Returns as of 06/02/23

