



Wealth Advisors,
Investment Managers

Weekly Market Recap - 07/07/23

Market Commentary

Weekly Recap:

Last week was a tough one for stocks and bonds alike, as resilient labor market data lent support to the Fed's "higher for longer" interest rate road map:

- * JOLTS job openings remained historically elevated at 9.8 million
- * ADP employment change nearly doubled m/m at 497k for May
- * Nonfarm payroll growth of 209k in June was the 30th straight month over 200k
- * U-3 unemployment fell 10bp to 3.6%
- * Average hourly earning growth accelerated to +0.4% m/m and +4.4% y/y

Minutes from the June FOMC meeting were also released last week, and painted a picture of a less unified committee than the unanimous decision to pause might have suggested. Some committee members had advocated for raising rates by another 25bp, specifically because of the historically tight labor market.

The combination of somewhat hawkish meeting minutes and the ensuing strong labor market data has convinced most investors that another 25bp rate hike is coming at the FOMC meeting later this month. Meanwhile, the belly and long end of the Treasury curve shifted higher by -20bp as investors recalibrated their longer-term inflation and interest rate expectations, pushing the entire curve above 4% for the first time since October/November of last year.

The incrementally more hawkish outlook for monetary policy pushed equity prices lower as well. The selling was broad-based across sectors, market caps, and geographies, with most US and global benchmarks down 1-2% on the week.

Albion's "Four Pillars":

*Economy & Earnings - The US economy showed resilience in the first half of 2023, and Wall Street analysts expect full-year corporate earnings to be roughly flat y/y. Albion's base case expectation is that the US economy will enter recession in the second half of 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 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 due 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 1-2 additional 25bp rate hikes over the summer, with no rate cuts expected before year-end.

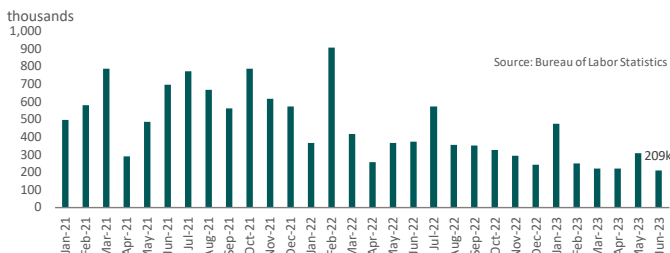
*Inflation - After reaching 40yr highs in spring of 2022, inflation has moderated somewhat over the past 12 months. Goods inflation has fallen due to softening demand and excess inventory, while services inflation remains elevated, in part due to shelter costs which are somewhat lagged.

Albion's Dashboard of Key Leading Economic Indicators as of 07/07/23

- Initial Jobless Claims (258k 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 (1,496k) - Stronger: May print was a 7-month high
- Corporate Bond Spreads (1.14%) - 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 (109.7) - Stronger: rebounded sharply in June to a 17-month high
- Real Final Sales (+2.8% y/y) - Stronger: has rebounded after a weak first half of 2022

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

Chart of the Week: Nonfarm Payrolls Added



Market Data

| Equity Indices | Close | 1 Week | MTD | YTD | 1 Year | 3y Cum. |
|------------------------------|--------|--------|-------|-------|--------|---------|
| S&P 500 | 4,399 | -1.1% | -1.1% | 15.6% | 14.7% | 46.7% |
| Dow Jones Indus. Avg. | 33,735 | -1.9% | -1.9% | 2.9% | 9.8% | 38.5% |
| NASDAQ | 13,661 | -0.9% | -0.9% | 31.1% | 18.6% | 35.2% |
| S&P Midcap 400 | 2,447 | -0.7% | -0.7% | 8.1% | 13.8% | 54.5% |
| Russell 2000 (Small Cap) | 1,754 | -1.3% | -1.3% | 6.7% | 7.0% | 36.8% |
| MSCI EAFE (Int'l Dev Mkt Eq) | 2,088 | -2.0% | -2.0% | 9.8% | 17.3% | 25.3% |
| MSCI EM (Emerging Mkt Eq) | 981 | -0.6% | -0.6% | 4.5% | 2.0% | 1.6% |
| MSCI World | 2,924 | -1.4% | -1.4% | 13.5% | 14.3% | 36.6% |
| S&P Global 1200 | 3,230 | -1.4% | -1.4% | 13.5% | 14.8% | 38.4% |

| Fixed Income | Yield | 1 Week | MTD | YTD | 1 Year | 3y Cum. |
|----------------------------|-------|--------|-------|-------|--------|---------|
| 10y U.S. Treasuries | 4.06% | -2.0% | -2.0% | -0.3% | -5.5% | -21.1% |
| U.S. Bonds (Aggregate) | 5.00% | -1.3% | -1.3% | 0.8% | -2.3% | -12.9% |
| Global Bonds | 3.96% | -0.7% | -0.7% | 0.8% | -1.5% | -15.1% |
| U.S. Munis | 3.58% | -0.3% | -0.3% | 2.3% | 1.7% | -2.2% |
| U.S. Investment Grade Corp | 5.67% | -1.4% | -1.4% | 1.7% | -0.2% | -12.2% |
| U.S. High Yield Corporates | 8.72% | -0.6% | -0.6% | 4.7% | 7.0% | 7.6% |

| US Interest Rates | 7/7/23 | 6/30/23 | 6/30/23 | 12/30/22 | 7/7/22 | 7/7/20 |
|----------------------------|--------|---------|---------|----------|--------|--------|
| 2y Treasuries | 4.95 | 4.90 | 4.90 | 4.43 | 3.01 | 0.16 |
| 10y Treasuries | 4.06 | 3.84 | 3.84 | 3.87 | 2.99 | 0.64 |
| 30y Treasuries | 4.05 | 3.86 | 3.86 | 3.96 | 3.18 | 1.37 |
| Fed Funds (Effective Rate) | 5.08 | 5.08 | 5.08 | 4.33 | 1.58 | 0.09 |
| SOFR (USD) | 5.06 | 5.09 | 5.09 | 4.30 | 1.54 | 0.10 |
| 30y Fixed Mortgage | 6.87 | 6.70 | 6.70 | 6.41 | 5.30 | 3.07 |

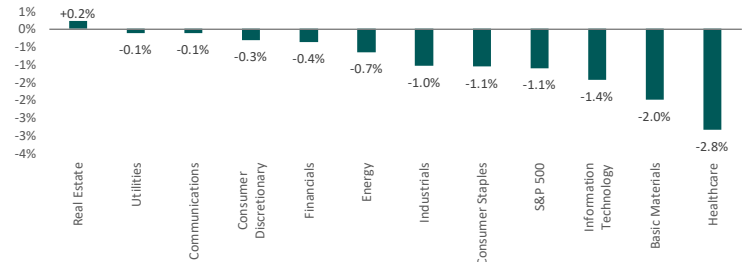
| Commodity Prices | 7/7/23 | 6/30/23 | 6/30/23 | 12/30/22 | 7/7/22 | 7/7/20 |
|------------------|--------|---------|---------|----------|--------|--------|
| Oil (WTI) | 73.86 | 70.64 | 70.64 | 80.26 | 102.73 | 40.62 |
| Gasoline | 3.54 | 3.54 | 3.54 | 3.20 | 4.72 | 2.18 |
| Natural Gas | 2.58 | 2.80 | 2.80 | 4.48 | 6.30 | 1.88 |
| Gold | 1,925 | 1,919 | 1,919 | 1,824 | 1,740 | 1,795 |

| Currency Crosses | 7/7/23 | 6/30/23 | 6/30/23 | 12/30/22 | 7/7/22 | 7/7/20 |
|------------------|--------|---------|---------|----------|--------|--------|
| \$ per E | 1.28 | 1.27 | 1.27 | 1.21 | 1.20 | 1.25 |
| \$ per € | 1.10 | 1.09 | 1.09 | 1.07 | 1.02 | 1.13 |
| ¥ per \$ | 142.2 | 144.3 | 144.3 | 131.1 | 136.0 | 107.5 |
| \$ per Bitcoin | 30,272 | 30,391 | 30,391 | 16,579 | 21,611 | 9,255 |

| Macroeconomic Data | Value | Date | Next Rel. |
|-------------------------------|-------|----------|-----------|
| Fed Funds Target (Floor) | 5.00% | 07/07/23 | 07/26/23 |
| Inflation (Core PCE Deflator) | 4.6% | 05/31/23 | 07/28/23 |
| Inflation (Headline CPI) | 4.0% | 05/31/23 | 07/12/23 |
| Unemployment (U-3) | 3.6% | 06/30/23 | 08/04/23 |
| GDP Growth (Q/Q SAAR) | 1.3% | 03/31/23 | 07/27/23 |
| ISM Manufacturing PMI | 46.0 | 06/30/23 | 08/01/23 |
| Consumer Confidence | 109.7 | 06/30/23 | 07/25/23 |

Data Sources: Bloomberg, FactSet

Sector Total Returns for the Week Ending 07/07/23



YTD Sector Total Returns as of 07/07/23

