



Wealth Advisors,
Investment Managers

Weekly Market Recap - 07/21/23

Market Commentary

Weekly Recap:

Equities were mixed last week: rate-sensitive sectors (growth and real estate) struggled while shorter-duration, higher dividend-paying sectors (cyclicals and defensives) outperformed. Small and midcaps also outperformed thanks to their less growth-heavy sector weightings.

Normally one might expect that kind of returns distribution to be driven by rising rates, and at the front end of the curve that was certainly the case. In particular, an unexpected fall in weekly initial jobless claims at 228k (consensus =240k; prior week = 237k) pushed short rates higher and increased the odds that the Fed may still have two more rate hikes to go before year-end.

However, yields in the belly of the Treasury curve hardly budged, and long bond yields actually finished the week slightly lower, keeping the US Aggregate index flat on the week. Credit spreads continued their slow grind tighter, pushing corporate bonds prices up a bit.

Away from jobless claims, other economic news last week was mixed. Housing starts and residential building permits both eased back to 1.4mn annualized in June after a sharp rebound on May, but directionally it still appears that housing activity is on the upswing after hitting a trough around the end of 2022. And finally, the Conference Board's US Leading Economic Index (LEI) fell sequentially for the 15th month in a row, and is at y/y levels that in the past have only been associated with imminent or in-progress recessions (see the Chart of the Week for a 60-year time series).

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 19.5x 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.

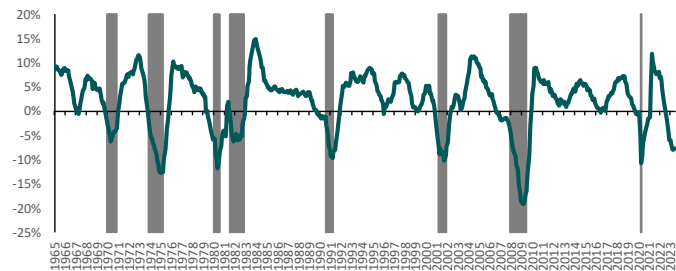
***Inflation** - After reaching 40yr highs in spring of 2022, inflation has moderated somewhat over the past 12 months. Goods inflation has fallen due to softening demand and excess inventory, while services inflation remains elevated, in part due to shelter costs which are somewhat lagged.

Albion's Dashboard of Key Leading Economic Indicators as of 07/21/23

- Initial Jobless Claims (238k 4wk m/a) - Stronger: claims have fallen recently after rising in early 2023
- Conference Board LEI (-7.8% y/y) - Weaker: has declined significantly since peaking in Dec 2021
- Residential Building Permits (1,440k) - Stronger: gradual improvement after early 2023 trough
- Corporate Bond Spreads (1.13%) - Stronger: rallied on debt ceiling resolution and easing bank concerns
- Treasury Yield Curves (0.0% 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: Conference Board US Leading Economic Index (LEI) - Y/Y Chg



Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
S&P 500	4,536	0.7%	2.0%	19.2%	15.4%	46.0%
Dow Jones Indus. Avg.	35,228	2.1%	2.5%	7.5%	12.4%	39.5%
NASDAQ	14,033	-0.6%	1.8%	34.7%	17.4%	34.5%
S&P Midcap 400	2,447	1.2%	3.2%	12.4%	13.9%	53.1%
Russell 2000 (Small Cap)	1,754	1.5%	3.8%	12.2%	8.4%	36.9%
MSCI EAFE (Int'l Dev Mkt Eq)	2,177	-0.6%	2.2%	14.5%	19.6%	26.8%
MSCI EM (Emerging Mkt Eq)	1,015	-1.3%	3.0%	8.2%	5.8%	1.8%
MSCI World	3,029	0.4%	2.1%	17.5%	15.6%	36.6%
S&P Global 1200	3,341	0.3%	2.0%	17.4%	16.1%	38.1%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	3.83%	0.0%	0.0%	1.8%	-4.6%	-19.8%
U.S. Bonds (Aggregate)	4.79%	0.0%	0.2%	2.3%	-1.7%	-12.2%
Global Bonds	3.81%	-0.5%	1.1%	2.5%	-0.2%	-14.7%
U.S. Munis	3.43%	0.5%	0.7%	3.4%	2.4%	-2.2%
U.S. Investment Grade Corp	5.45%	0.2%	0.4%	3.6%	0.1%	-12.1%
U.S. High Yield Corporates	8.32%	0.1%	1.1%	6.5%	6.2%	7.3%

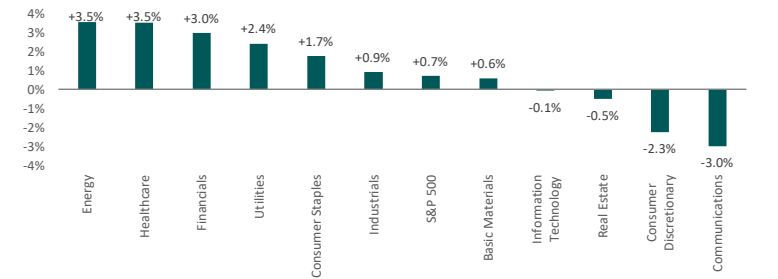
US Interest Rates	Levels (%)					
	7/21/23	7/14/23	6/30/23	12/30/22	7/21/22	7/21/20
2y Treasuries	4.84	4.77	4.90	4.43	3.09	0.14
10y Treasuries	3.83	3.83	3.84	3.87	2.87	0.60
30y Treasuries	3.90	3.93	3.86	3.96	3.04	1.31
Fed Funds (Effective Rate)	5.08	5.08	5.08	4.33	1.58	0.10
SOFR (USD)	5.05	5.05	5.09	4.30	1.53	0.11
30y Fixed Mortgage	6.72	7.02	6.70	6.41	5.54	2.98

Commodity Prices	Levels					
	7/21/23	7/14/23	6/30/23	12/30/22	7/21/22	7/21/20
Oil (WTI)	77.07	75.42	70.64	80.26	96.35	41.96
Gasoline	3.59	3.57	3.54	3.20	4.41	2.19
Natural Gas	2.71	2.54	2.80	4.48	7.93	1.68
Gold	1,962	1,955	1,919	1,824	1,719	1,842

Currency Crosses	Levels					
	7/21/23	7/14/23	6/30/23	12/30/22	7/21/22	7/21/20
\$ per €	1.29	1.31	1.27	1.21	1.20	1.27
\$ per ¥	1.11	1.12	1.09	1.07	1.02	1.15
¥ per \$	141.7	138.8	144.3	131.1	137.4	106.8
\$ per Bitcoin	29,884	30,206	30,391	16,579	23,124	9,377

Macroeconomic Data	Value	Date	Next Rel.	Data Sources:	
				Bloomberg	FactSet
Fed Funds Target (Floor)	5.00%	07/21/23	07/26/23		
Inflation (Core PCE Deflator)	4.6%	05/31/23	07/28/23		
Inflation (Headline CPI)	3.0%	06/30/23	08/10/23		
Unemployment (U-3)	3.6%	06/30/23	08/04/23		
GDP Growth (Q/Q SAAR)	2.0%	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		

Sector Total Returns for the Week Ending 07/21/23



YTD Sector Total Returns as of 07/21/23

