

Market Commentary

Weekly Recap:

Last week's main event was the July FOMC meeting, at which the committee raised overnight interest rates by 25bp, to a target range of 5.25% to 5.50%. The accompanying statement was little changed from the previous meeting, although the committee did upgrade its assessment of current US economic growth from "modest" to "moderate". Fed Chair Jerome Powell maintained a hawkish tone in the ensuing press conference, reiterating that monetary policy would need to remain restrictive for some time in order to bring inflation down to the committee's 2% target.

Rates moved slightly higher across the curve in response to the fresh round of hawkish commentary, and the odds of yet another 25bp rate hike prior to year-end increased a bit in futures markets. Meanwhile, the market now foresees no rate cuts prior to March of next year.

Equities remained surprisingly buoyant despite the melt-up in rates, perhaps driven by encouraging macro data that raised hopes for a soft landing. The first estimate of Q2 GDP growth came in at +2.4% annualized, showing sequential acceleration in the economy that exceeded consensus estimates. Meanwhile core CPE fell to +3.8% annualized in the quarter, consistent with higher frequency inflation data that has been released in recent months. The Conference Board's Consumer Confidence index also rose sharply for the second month in a row, hitting a 2-year high at 117.0 in June.

Tech company earnings have also helped to pull the market higher of late, and last week was no exception. META (fka Facebook) rose 10% on the week after releasing better-than-expected Q2 earnings and revenue growth, driving significant outperformance in the Comms sector and the Nasdaq.

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 19.4x 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 now imply that the Fed Funds overnight interest rate will remain unchanged at 5.25-5.50% until at least March of next 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.

Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
S&P 500	4,582	1.0%	3.1%	20.5%	14.5%	49.3%
Dow Jones Indus. Avg.	35,459	0.7%	3.2%	8.2%	11.4%	42.8%
NASDAQ	14,317	2.0%	3.9%	37.4%	18.8%	40.9%
S&P Midcap 400	2,447	0.4%	3.7%	12.8%	11.4%	53.8%
Russell 2000 (Small Cap)	1,754	1.1%	5.0%	13.5%	7.4%	40.1%
MSCI EAFE (Int'l Dev Mkt Eq)	2,196	0.9%	3.1%	15.6%	18.6%	28.3%
MSCI EM (Emerging Mkt Eq)	1,043	2.9%	5.9%	11.3%	8.0%	5.0%
MSCI World	3,058	1.0%	3.1%	18.7%	14.8%	39.3%
S&P Global 1200	3,372	1.0%	3.0%	18.6%	15.2%	40.7%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	3.95%	-0.9%	-0.9%	0.8%	-7.3%	-20.8%
U.S. Bonds (Aggregate)	4.87%	-0.4%	-0.2%	1.9%	-3.4%	-12.7%
Global Bonds	3.84%	-0.3%	0.8%	2.2%	-2.3%	-15.9%
U.S. Munis	3.49%	-0.3%	0.4%	3.1%	1.1%	-2.7%
U.S. Investment Grade Corp	5.49%	-0.2%	0.1%	3.3%	-1.3%	-12.5%
U.S. High Yield Corporates	8.37%	0.1%	1.2%	6.6%	5.0%	6.8%

US Interest Rates	Levels (%)					
	7/28/23	7/21/23	6/30/23	12/30/22	7/28/22	7/28/20
2y Treasuries	4.87	4.84	4.90	4.43	2.86	0.14
10y Treasuries	3.95	3.83	3.84	3.87	2.68	0.58
30y Treasuries	4.01	3.90	3.86	3.96	3.02	1.22
Fed Funds (Effective Rate)	5.33	5.08	5.08	4.33	2.33	0.10
SOFR (USD)	5.30	5.05	5.09	4.30	2.28	0.10
30y Fixed Mortgage	6.80	6.72	6.70	6.41	5.30	3.01

Commodity Prices	Levels					
	7/28/23	7/21/23	6/30/23	12/30/22	7/28/22	7/28/20
Oil (WTI)	80.58	77.07	70.64	80.26	96.42	41.04
Gasoline	3.75	3.59	3.54	3.20	4.26	2.19
Natural Gas	2.64	2.71	2.80	4.48	8.13	1.80
Gold	1,959	1,962	1,919	1,824	1,756	1,958

Currency Crosses	Levels					
	7/28/23	7/21/23	6/30/23	12/30/22	7/28/22	7/28/20
\$ per £	1.29	1.29	1.27	1.21	1.22	1.29
\$ per €	1.10	1.11	1.09	1.07	1.02	1.17
¥ per \$	141.2	141.7	144.3	131.1	134.3	105.1
\$ per Bitcoin	29,342	29,884	30,391	16,579	24,034	10,981

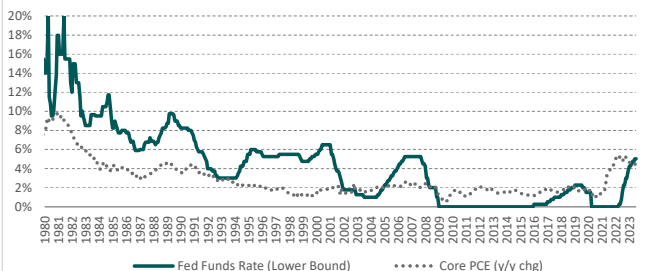
Macroeconomic Data	Value	Date	Next Rel.	Data Sources:	
				Bloomberg	FactSet
Fed Funds Target (Floor)	5.25%	07/28/23	09/20/23		
Inflation (Core PCE Deflator)	4.1%	06/30/23	08/31/23		
Inflation (Headline CPI)	3.0%	06/30/23	08/10/23		
Unemployment (U-3)	3.6%	06/30/23	08/04/23		
GDP Growth (Q/Q SAAR)	2.4%	06/30/23	08/30/23		
ISM Manufacturing PMI	46.0	06/30/23	08/01/23		
Consumer Confidence	117.0	07/28/23	08/29/23		

Albion's Dashboard of Key Leading Economic Indicators as of 07/28/23

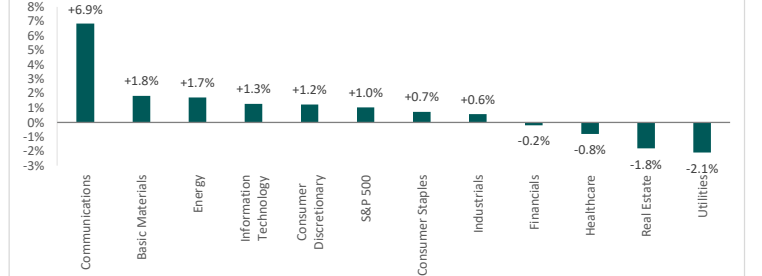
- Initial Jobless Claims (234k 4wk m/a) - Stronger: claims have fallen recently after rising in early 2023
- Conference Board LEI (-7.8% y/y) - Weaker: has declined significantly since peaking in Dec 2021
- Residential Building Permits (1,441k) - Stronger: gradual improvement after early 2023 trough
- Corporate Bond Spreads (1.07%) - Stronger: rallied on debt ceiling resolution and easing bank concerns
- Treasury Yield Curves (88.9% inv) - Steady: curve has remained almost fully inverted throughout 2023
- Consumer Confidence (117) - Stronger: July print was the highest in 2 years
- Real Final Sales (+3.0% y/y) - Stronger: has rebounded after a weak first half of 2022

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

Chart of the Week: Fed Funds Lower Bound vs. Core Inflation (PCE y/y)



Sector Total Returns for the Week Ending 07/28/23



YTD Sector Total Returns as of 07/28/23

