



Wealth Advisors,
Investment Managers

Weekly Market Recap - 08/11/23

Market Commentary

Weekly Recap:

Stocks were mixed and bonds were mostly lower last week despite July inflation data that came in close to expectations:

- * Headline CPI was +0.2% m/m and +3.2% y/y (slightly below consensus of +3.3%)
- * Core CPI was +0.2% m/m and +4.7% y/y (in line with consensus)
- * Headline PPI was +0.3% m/m and +0.8% y/y (10bp above consensus on both)
- * Core PPI was +0.3% m/m and +2.4% y/y (also 10bp above consensus on both)

In addition, Friday's preliminary August release of the University of Michigan's Consumer Sentiment survey showed a 10bp decline in 1-year forward inflation expectations, from 3.4% to 3.3%, while longer term (5-10 year) expectations also declined by 10bp, from 3.0% to 2.9%.

Despite the relatively encouraging inflation outlook, US Treasury yields continue to be pulled higher by a combination of domestic supply technicals and the potential for shifting relative value versus Japanese Government Bonds (JGB's) as the Bank of Japan relaxes its long-held policy of yield curve control. Yields moved higher across the curve last week as a result, sending most bond prices lower.

Stocks finished mixed against this backdrop. Idiosyncratic winners included energy stocks, which have been lifted by the rising tide in oil and gas prices over the past six weeks, and a handful of healthcare names (particularly Eli Lilly) that were the beneficiary of investor enthusiasm regarding the mass market potential of new weight-loss drugs. On the other side of the ledger, most technology stocks were lower on the week as rising rates impacted P/E multiples for longer-dated growth companies.

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 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	4,464	-0.3%	-2.7%	17.4%	7.9%	40.4%
Dow Jones Indus. Avg.	35,281	0.7%	-0.7%	7.8%	8.1%	35.4%
NASDAQ	13,645	-1.7%	-4.8%	31.0%	7.7%	29.5%
S&P Midcap 400	2,447	-0.8%	-2.4%	10.6%	5.1%	43.1%
Russell 2000 (Small Cap)	1,754	-1.6%	-3.8%	10.3%	-1.0%	27.0%
MSCI EAFE (Int'l Dev Mkt Eq)	2,129	-0.6%	-3.1%	12.2%	11.8%	23.5%
MSCI EM (Emerging Mkt Eq)	998	-1.9%	-4.6%	6.6%	1.6%	-0.4%
MSCI World	2,973	-0.4%	-2.9%	15.5%	7.9%	32.0%
S&P Global 1200	3,279	-0.4%	-2.9%	15.4%	8.9%	33.4%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	4.15%	-0.9%	-1.7%	-0.8%	-7.1%	-21.5%
U.S. Bonds (Aggregate)	5.03%	-0.6%	-1.4%	0.6%	-3.6%	-13.6%
Global Bonds	3.96%	-0.8%	-1.5%	0.6%	-4.0%	-17.1%
U.S. Munis	3.66%	0.4%	-0.8%	2.2%	0.2%	-4.3%
U.S. Investment Grade Corp	5.68%	-0.7%	-1.7%	1.8%	2.1%	-13.7%
U.S. High Yield Corporates	8.47%	0.3%	-0.3%	6.6%	2.6%	5.3%

US Interest Rates	Levels (%)					
	8/11/23	8/4/23	7/31/23	12/30/22	8/11/22	8/11/20
2y Treasuries	4.89	4.76	4.88	4.43	3.22	0.15
10y Treasuries	4.15	4.03	3.96	3.87	2.89	0.64
30y Treasuries	4.26	4.20	4.01	3.96	3.17	1.33
Fed Funds (Effective Rate)	5.33	5.33	5.33	4.33	2.33	0.10
SOFR (USD)	5.30	5.30	5.31	4.30	2.28	0.10
30y Fixed Mortgage	6.95	6.92	6.80	6.41	5.22	2.88

Commodity Prices	Levels					
	8/11/23	8/4/23	7/31/23	12/30/22	8/11/22	8/11/20
Oil (WTI)	83.19	82.82	81.80	80.26	94.34	41.61
Gasoline	3.85	3.83	3.78	3.20	3.98	2.18
Natural Gas	2.77	2.58	2.63	4.48	8.87	2.17
Gold	1,914	1,943	1,965	1,824	1,790	1,912

Currency Crosses	Levels					
	8/11/23	8/4/23	7/31/23	12/30/22	8/11/22	8/11/20
\$ per £	1.27	1.27	1.28	1.21	1.22	1.30
\$ per €	1.09	1.10	1.10	1.07	1.03	1.17
¥ per \$	145.0	141.8	142.3	131.1	133.0	106.5
\$ per Bitcoin	29,387	28,938	29,207	16,579	24,216	11,213

Macroeconomic Data	Value	Date	Next Rel.		
Fed Funds Target (Floor)	5.25%	08/11/23	09/20/23		
Inflation (Core PCE Deflator)	4.1%	06/30/23	08/31/23		
Inflation (Headline CPI)	3.2%	07/31/23	09/13/23		
Unemployment (U-3)	3.5%	07/31/23	09/01/23		
GDP Growth (Q/Q SAAR)	2.4%	06/30/23	08/30/23		
ISM Manufacturing PMI	46.4	07/31/23	09/01/23		
Consumer Confidence	117.0	07/31/23	08/29/23		

Data Sources:
Bloomberg, FactSet

Albion's Dashboard of Key Leading Economic Indicators as of 08/11/23

- Initial Jobless Claims (231k 4wk m/a) - Steady: claims have ebbed and flowed recently with no clear trend
- 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 (1.11%) - Stronger: rallied on debt ceiling resolution and easing bank concerns
- Treasury Yield Curves (86.7% 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

Sector Total Returns for the Week Ending 08/11/23

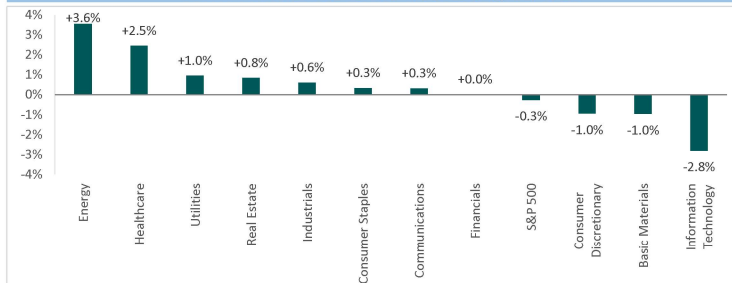
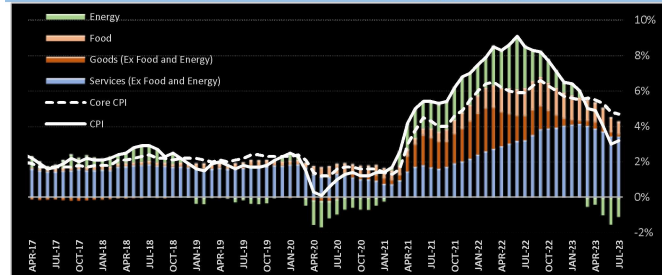


Chart of the Week: CPI Breakdown (y/y change)



YTD Sector Total Returns as of 08/11/23

