



Market Commentary

Weekly Recap:

Stocks fell for the 3rd week in a row as a combination of rising rates and China growth concerns weighed on P/E multiples. US investors woke up Monday morning to a slew of weak July macro data coming out of China, as a long-simmering decline in the Chinese property sector showed signs of bleeding into the broader economy:

- * Industrial production fell 70bp to +3.7% y/y vs. consensus of +4.3%
- * Retail sales fell 60bp to +2.5% y/y vs. consensus of +4.0%
- * Property investment fell deeper into contraction at -8.5% YTD

The People's Bank of China responded to the weakening economy by cutting its benchmark 1y lending facility rate by 15bp, to 2.50%.

Meanwhile, rates continued to leak higher in the US as fresh macro data showed a continuation of recent trends, including a resilient consumer (July retail sales accelerated), weak manufacturing (Empire Manufacturing sank deeper into contraction territory), mixed signals in housing (starts and permits showed modest gains, but builders report a decline in buyer traffic), and a strong labor market (initial jobless claims fell after a bump higher the previous week). Finally, the Conference Board's Leading Economic Index (LEI) fell for the 16th month in a row.

Rising nominal yields combined with stable longer-term inflation expectations have pushed real 10y US Treasury yields (nominal yield minus inflation breakevens) to their highest levels since late 2008 / early 2009, when the threat of deflation during the depths of the financial crisis caused long-term inflation expectations to collapse. Dislocated markets aside, the current -2% real yield on the 10y is more comparable to the pre-GFC market environment that prevailed in the mid-2000s. See the Chart of the Week for a 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 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.

Albion's Dashboard of Key Leading Economic Indicators as of 08/18/23

- Initial Jobless Claims (234k 4wk m/a) - Steady: have ebbed and flowed recently with no clear trend
- Conference Board LEI (-7.5% y/y) - Weaker: has declined significantly since peaking in Dec 2021
- Residential Building Permits (1,442k) - Stronger: gradual improvement after early 2023 trough
- Corporate Bond Spreads (1.14%) - 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

Chart of the Week: US 10-Year Real Yield (Nominal minus Inflation Breakeven)



Weekly Market Recap - 08/18/23

Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
S&P 500	4,370	-2.1%	-4.7%	15.0%	3.8%	35.1%
Dow Jones Indus. Avg.	34,501	-2.1%	-2.8%	5.5%	3.7%	32.0%
NASDAQ	13,291	-2.6%	-7.3%	27.7%	3.4%	21.4%
S&P Midcap 400	2,447	-3.0%	-5.4%	7.2%	0.2%	39.3%
Russell 2000 (Small Cap)	1,754	-3.4%	-7.1%	6.6%	-5.6%	23.1%
MSCI EAFE (Int'l Dev Mkt Eq)	2,058	-3.3%	-6.3%	8.5%	9.3%	18.2%
MSCI EM (Emerging Mkt Eq)	964	-3.3%	-7.7%	3.1%	-1.5%	-4.9%
MSCI World	2,898	-2.5%	-5.3%	12.6%	4.3%	26.5%
S&P Global 1200	3,196	-2.5%	-5.3%	12.5%	5.2%	28.1%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	4.25%	-0.6%	-2.3%	-1.4%	-7.8%	-22.0%
U.S. Bonds (Aggregate)	5.12%	-0.5%	-1.9%	0.1%	-4.1%	-13.8%
Global Bonds	4.01%	-0.8%	-2.3%	-0.2%	-3.6%	-18.1%
U.S. Munis	3.76%	-0.6%	-1.4%	1.6%	0.6%	-4.4%
U.S. Investment Grade Corp	5.80%	-0.7%	-2.4%	1.1%	-3.0%	-13.6%
U.S. High Yield Corporates	8.70%	-0.8%	-1.1%	5.7%	2.3%	5.0%

US Interest Rates	Levels (%)					
	8/18/23	8/11/23	7/31/23	12/30/22	8/18/22	8/18/20
2y Treasuries	4.94	4.89	4.88	4.43	3.20	0.14
10y Treasuries	4.25	4.15	3.96	3.87	2.88	0.67
30y Treasuries	4.38	4.26	4.01	3.96	3.14	1.40
Fed Funds (Effective Rate)	5.33	5.33	5.33	4.33	2.33	0.09
SOFR (USD)	5.30	5.30	5.31	4.30	2.28	0.09
30y Fixed Mortgage	7.22	6.95	6.80	6.41	5.13	2.96

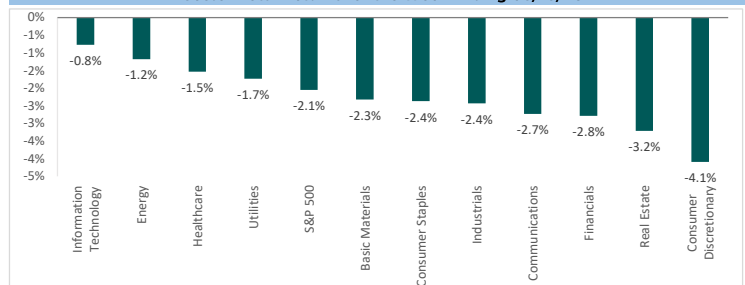
Commodity Prices	Levels					
	8/18/23	8/11/23	7/31/23	12/30/22	8/18/22	8/18/20
Oil (WTI)	81.25	83.19	81.80	80.26	90.50	42.89
Gasoline	3.87	3.85	3.78	3.20	3.92	2.18
Natural Gas	2.55	2.77	2.63	4.48	9.19	2.42
Gold	1,889	1,914	1,965	1,824	1,759	2,002

Currency Crosses	Levels					
	8/18/23	8/11/23	7/31/23	12/30/22	8/18/22	8/18/20
\$ per £	1.27	1.27	1.28	1.21	1.19	1.32
\$ per €	1.09	1.09	1.10	1.07	1.01	1.19
¥ per \$	145.4	145.0	142.3	131.1	135.9	105.4
\$ per Bitcoin	26,072	29,387	29,207	16,579	23,417	12,030

Macroeconomic Data	Value	Date	Next Rel.		
Fed Funds Target (Floor)	5.25%	08/18/23	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

Sector Total Returns for the Week Ending 08/18/23



YTD Sector Total Returns as of 08/18/23

