ALBION FINANCIAL GROUP

Wealth Advisors, Investment Managers

Weekly Market Recap - 09/01/23

Market Commentary

Weekly Recap:

Macro news released last week showed continued normalization of the labor market. JOLTS job openings fell to 8.8 million, the lowest print in more than 2 years. And while monthly nonfarm payrolls were in line with consensus at +187k, several of the underlying components of the report were a bit soft. Net NFP revisions for the prior 2 months totaled -110k, average hourly earnings rose just 0.2% m/m (the lowest in over a year), and the labor force participation rate rose to 62.8%, the highest level since February of 2020. Lastly, the unemployment (U-3) and underemployment (U-6) rates both rose, to 3.8% (+30bp) and 7.1% (+40bp), respectively.

Rate volatility continued to subside as August drew to a close, allowing most financial asset prices to rise. The ICE BofA MOVE Index (essentially the equivalent of VIX for interest rates) fell ~7% on the week to close at 102.92, the lowest level since early February and one of the lowest prints since the Fed first began raising interest rates nearly 18 months ago. Rate vol is still elevated relative to the second half of 2020, however, when the Fed's ZIRP pandemic response looked set to continue for years to come. See the Chart of the Week (bottom left of the page) for a time series.

With rates (and rate vol) falling and credit spreads stable, bond prices rallied for the second week in a row. Stocks finished higher as well, with growth sectors outperforming while defensive sectors lagged. That's been the trend throughout much of 2023, resulting in what is now fairly dramatic dispersion in YTD sector returns (see bottom right chart for details). This same dynamic (growth outperforming, defensives lagging, with cyclicals in the middle) also shows up in the YTD performance difference between the Nasdaq (+34.9%) and the Dow (+6.7%), with the S&P 500 (a blend of the two from a sector standpoint) sitting almost squarely in the middle (+18.9%).

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. Fed Funds Futures now show a slight odds-on probability of one addition 25bp rate hike 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.

Market Data

		Index Total Returns (%)				
Equity Indices	**Close**	**1 Week**	**MTD**	**YTD**	**1 Year**	**3y Cum.**
S&P 500	4,516	2.5%	0.2%	18.9%	15.8%	34.2%
Dow Jones Indus. Avg.	34,838	1.6%	0.3%	6.7%	12.4%	29.2%
NASDAQ	14,032	3.3%	0.0%	34.9%	20.1%	20.3%
S&P Midcap 400	2,447	3.6%	0.9%	11.1%	12.6%	43.9%
Russell 2000 (Small Cap)	1,754	3.7%	1.1%	10.2%	7.0%	26.5%
MSCI EAFE (Int'l Dev Mkt Eq)	2,104	2.5%	-0.2%	11.1%	21.5%	21.2%
MSCI EM (Emerging Mkt Eq)	986	1.5%	0.5%	5.4%	4.1%	-4.1%
MSCI World	2,990	2.7%	0.1%	16.3%	16.5%	26.9%
S&P Global 1200	3,297	2.4%	0.1%	16.0%	16.8%	28.9%

		Index Total Returns (%)				
Fixed Income	**Yield**	**1 Week**	**MTD**	**YTD**	**1 Year**	**3y Cum.**
10y U.S. Treasuries	4.18%	0.5%	-0.7%	-0.7%	-4.2%	-21.4%
U.S. Bonds (Aggregate)	5.03%	0.5%	-0.5%	0.9%	-1.1%	-13.2%
Global Bonds	3.95%	0.6%	-0.4%	0.3%	0.4%	-17.8%
U.S. Munis	3.79%	0.4%	0.0%	1.6%	2.2%	-3.9%
U.S. Investment Grade Corp	5.68%	0.4%	-0.6%	2.2%	1.2%	-12.8%
U.S. High Yield Corporates	8.40%	1.0%	0.0%	7.1%	7.8%	5.4%

	Levels (%)					
US Interest Rates	**9/1/23**	**8/25/23**	**8/31/23**	**12/30/22**	**9/1/22**	**9/1/20**
2y Treasuries	4.88	5.08	4.86	4.43	3.50	0.13
10y Treasuries	4.18	4.24	4.11	3.87	3.25	0.67
30y Treasuries	4.29	4.28	4.21	3.96	3.36	1.42
Fed Funds (Effective Rate)	5.33	5.33	5.33	4.33	2.33	0.09
SOFR (USD)	5.31	5.30	5.31	4.30	2.29	0.09
30y Fixed Mortgage	7.30	7.30	7.30	6.41	5.66	2.91

	Levels					
Commodity Prices	**9/1/23**	**8/25/23**	**8/31/23**	**12/30/22**	**9/1/22**	**9/1/20**
Oil (WTI)	85.55	79.83	83.63	80.26	86.61	42.76
Gasoline	3.82	3.82	3.82	3.20	3.81	2.23
Natural Gas	2.77	2.54	2.77	4.48	9.26	2.53
Gold	1,940	1,915	1,940	1,824	1,698	1,970

	Levels					
Currency Crosses	**9/1/23**	**8/25/23**	**8/31/23**	**12/30/22**	**9/1/22**	**9/1/20**
$ per £	1.26	1.26	1.27	1.21	1.15	1.34
$ per €	1.08	1.08	1.08	1.07	0.99	1.19
¥ per $	146.2	146.4	145.5	131.1	140.2	106.0
$ per Bitcoin	25,760	26,049	26,013	16,579	20,071	12,022

Macroeconomic Data	**Value**	**Date**	**Next Rel.**
Fed Funds Target (Floor)	5.25%	09/01/23	09/20/23
Inflation (Core PCE Deflator)	4.2%	07/31/23	09/29/23
Inflation (Headline CPI)	3.2%	07/31/23	09/13/23
Unemployment (U-3)	3.8%	08/31/23	10/06/23
GDP Growth (Q/Q SAAR)	2.1%	06/30/23	09/28/23
ISM Manufacturing PMI	47.6	08/31/23	10/02/23
Consumer Confidence	106.1	08/31/23	09/26/23

Data Sources:
Bloomberg, FactSet

Albion's Dashboard of Key Leading Economic Indicators as of 09/01/23

- Initial Jobless Claims (238k 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 (1,443k) - Stronger: gradual improvement after early 2023 trough
- Corporate Bond Spreads (1.10%) - Stronger: rallied on debt ceiling resolution and easing bank concerns
- Treasury Yield Curves (84.4% inv) - Steady: curve has remained almost fully inverted throughout 2023
- Consumer Confidence (106.1) - Mixed: dropped in August after an early summer rebound
- 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 09/01/23

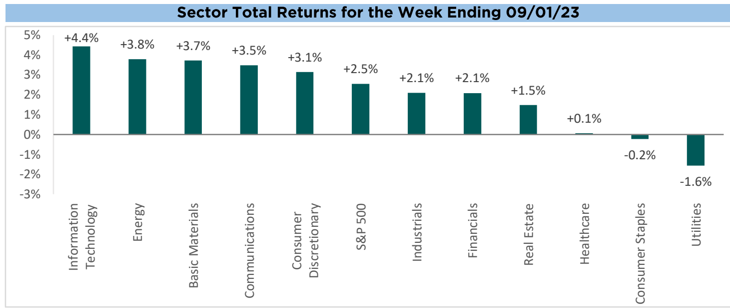
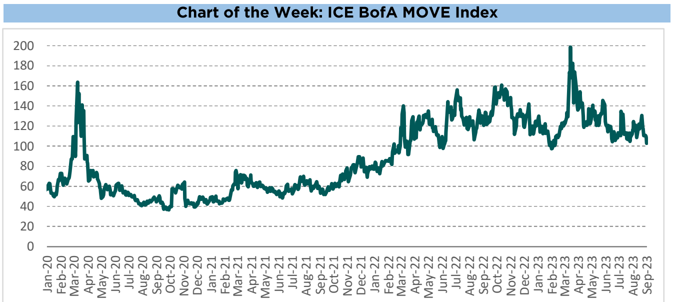


Chart of the Week: ICE BofA MOVE Index



YTD Sector Total Returns as of 09/01/23