

**Market Commentary****Weekly Recap:**

September has often been a seasonally weak period for stocks, and so far 2023 has been no exception. Going back more than 100 years, there are only three calendar months with negative average price returns for the S&P 500: February at -0.14%; May at -0.04%; and September which is by far the lowest at -1.16% (see the Chart of the Week for monthly averages for the S&P since 1928). If instead we use median instead of average, September is the only month with a negative return (-0.56%) across more than 100 years of data. Theories abound as to whether this phenomenon is real, and attributable to factors that will persist in the future, or is merely noise. Either way, 2023 has followed the typical pattern of post-Labor Day weakness thus far.

One possible cause of weakness in stocks over the past week has been rates, which moved higher on Wednesday of last week following a blowout ISM Services PMI report for the month of August. All components of the report were stronger sequentially and well ahead of consensus, including the much-watched Prices Paid index which rose for the 2nd month in a row. ISM's Manufacturing PMI for August was released a day prior and was generally weaker, but the Prices Paid component of that report also rose for a second straight month.

Investors responded to the stronger services data and upward trends in prices paid by adding roughly 10% to the odds of a 25bp rate hike at the November FOMC meeting. Meanwhile, the Treasury yield curve moved higher by 5-10bp, with the inversion deepening slightly as front end yields were more heavily impacted.

In the coming week the market will digest fresh inflation data (CPI, PPI, and import/export prices) for August, which will surely impact rates and stocks anew.

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.

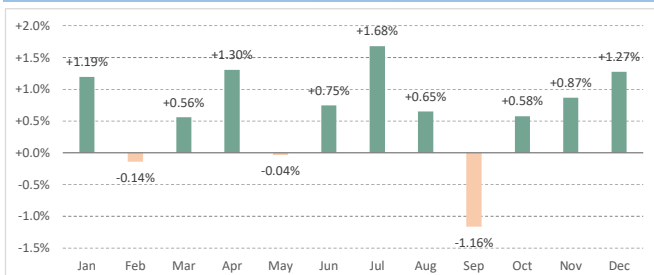
*Interest Rates - Rates rose dramatically in 2022 due to a sharp pivot in monetary policy, and have remained elevated in 2023 as progress on inflation has been slower than hoped. Futures markets now imply that the Fed Funds overnight interest rate will remain unchanged at 5.25-5.50% until at least March 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 09/08/23

- Initial Jobless Claims (229k 4wk m/a) - Stronger: have moved lower after an early summer peak
- 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%) - Steady: stabilized near long run averages after summer rally
- Treasury Yield Curves (88.9% 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

Chart of the Week: S&P 500 Average Monthly Price Return (1928 - Present)**Weekly Market Recap - 09/08/23****Market Data**

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
S&P 500	4,457	-1.3%	-1.1%	17.4%	13.2%	40.2%
Dow Jones Indus. Avg.	34,577	-0.7%	-0.4%	6.0%	11.2%	33.6%
NASDAQ	13,762	-1.9%	-1.9%	32.3%	17.0%	29.8%
S&P Midcap 400	2,447	-3.5%	-2.7%	7.1%	6.7%	45.2%
Russell 2000 (Small Cap)	1,754	-3.6%	-2.5%	6.2%	1.8%	27.9%
MSCI EAFE (Int'l Dev Mkt Eq)	2,074	-1.4%	-1.6%	9.6%	19.1%	21.0%
MSCI EM (Emerging Mkt Eq)	974	-1.2%	-0.6%	4.2%	4.9%	-2.4%
MSCI World	2,949	-1.3%	-1.2%	14.7%	13.7%	31.2%
S&P Global 1200	3,247	-1.3%	-1.3%	14.4%	14.3%	32.5%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	4.26%	-0.5%	-1.2%	-1.2%	-4.3%	-21.7%
U.S. Bonds (Aggregate)	5.11%	-0.3%	-0.8%	0.6%	-1.1%	-13.4%
Global Bonds	4.02%	-0.8%	-1.2%	-0.5%	0.2%	-18.1%
U.S. Munis	3.84%	-0.2%	-0.3%	1.3%	2.4%	-4.2%
U.S. Investment Grade Corp	5.75%	-0.3%	-0.8%	1.9%	1.1%	-12.8%
U.S. High Yield Corporates	8.53%	-0.3%	-0.3%	6.8%	6.4%	5.6%

US Interest Rates	Levels (%)					
	9/8/23	9/1/23	8/31/23	12/30/22	9/8/22	9/8/20
2y Treasuries	4.99	4.88	4.86	4.43	3.50	0.14
10y Treasuries	4.26	4.18	4.11	3.87	3.32	0.68
30y Treasuries	4.34	4.29	4.21	3.96	3.48	1.42
Fed Funds (Effective Rate)	5.33	5.33	5.33	4.33	2.33	0.09
SOFR (USD)	5.30	5.31	5.31	4.30	2.28	0.09
30y Fixed Mortgage	7.14	7.22	7.22	6.41	5.89	2.93

Commodity Prices	Levels					
	9/8/23	9/1/23	8/31/23	12/30/22	9/8/22	9/8/20
Oil (WTI)	87.51	85.55	83.63	80.26	83.54	36.76
Gasoline	3.82	3.82	3.82	3.20	3.74	2.21
Natural Gas	2.61	2.77	2.77	4.48	7.92	2.40
Gold	1,919	1,940	1,940	1,824	1,708	1,932

Currency Crosses	Levels					
	9/8/23	9/1/23	8/31/23	12/30/22	9/8/22	9/8/20
\$ per £	1.25	1.26	1.27	1.21	1.15	1.30
\$ per €	1.07	1.08	1.08	1.07	1.00	1.18
¥ per \$	147.8	146.2	145.5	131.1	144.1	106.0
\$ per Bitcoin	25,902	25,760	26,013	16,579	19,380	10,017

Macroeconomic Data	Value	Date	Next Rel.	Data Sources:	
Fed Funds Target (Floor)	5.25%	09/08/23	09/20/23	Bloomberg, FactSet	
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		

Sector Total Returns for the Week Ending 09/08/23**YTD Sector Total Returns as of 09/08/23**