



**ALBION
FINANCIAL
GROUP**

Wealth Advisors,
Investment Managers

Market Commentary

Weekly Recap:

Fresh inflation data for the month of August did little to change the narrative last week. Although a supply-driven spike in energy prices drove the headline numbers higher, the disinflationary trend in core inflation remains intact. This is true for both consumer (CPI) and producer (PPI) prices:

* Headline CPI was +0.6% m/m and +3.7% y/y

* Core (ex food and energy) CPI was +0.3% m/m and +4.3% y/y

* Headline PPI was +0.7% m/m and +1.6% y/y

* Core PPI was +0.2% m/m and +2.2% y/y

All of this data was very close to consensus expectations, and Fed Funds Futures markets were largely unmoved by it. Futures continue to imply a slightly less than 50/50 chance of one additional rate hike prior to year-end, most likely at the December meeting if it occurs at all, followed by a multi-meeting pause.

Rates markets were soft despite the incoming data, particularly in the belly and long end of the curve where yields rose 7-8bp. Investment grade credit spreads remained stable near long-run averages, passing the price declines from Treasuries through to high quality corporates.

Stocks were mixed against the relatively calm macro backdrop. Tech stocks finished lower on the week, in part due to somewhat disappointing results from Oracle (relative to very lofty expectations at least) that temporarily dented investor enthusiasm for A/I story names. Most other sectors finished close to flat or slightly higher on the week. International stocks outperformed, but continue to lag the US on a YTD basis.

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.

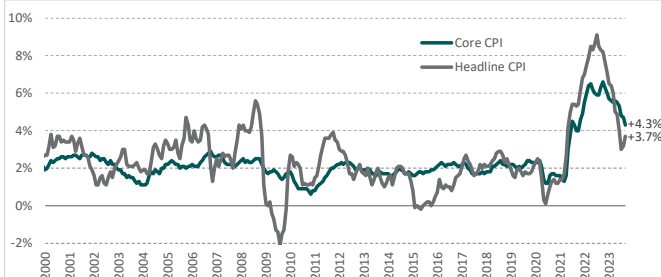
*Inflation - After reaching 40yr highs in spring of 2022, inflation has moderated somewhat over the past 12 months. Goods inflation has fallen due to softening demand and excess inventory, while services inflation remains elevated, in part due to shelter costs which are somewhat lagged.

Albion's Dashboard of Key Leading Economic Indicators as of 09/15/23

- Initial Jobless Claims (225k 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 (86.7% 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: Headline and Core CPI (y/y change)



Weekly Market Recap - 09/15/23

Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
S&P 500	4,450	-0.1%	-1.2%	17.3%	16.0%	37.2%
Dow Jones Indus. Avg.	34,618	0.1%	-0.2%	6.1%	14.2%	31.4%
NASDAQ	13,708	-0.4%	-2.3%	31.8%	19.7%	25.4%
S&P Midcap 400	2,447	-0.2%	-2.9%	6.9%	8.3%	41.9%
Russell 2000 (Small Cap)	1,754	-0.2%	-2.7%	6.0%	2.8%	24.8%
MSCI EAFE (Int'l Dev Mkt Eq)	2,108	1.7%	0.0%	11.4%	20.7%	20.7%
MSCI EM (Emerging Mkt Eq)	985	1.3%	0.6%	5.5%	6.0%	-3.4%
MSCI World	2,961	0.4%	-0.8%	15.2%	16.2%	28.8%
S&P Global 1200	3,265	0.6%	-0.7%	15.1%	17.0%	30.5%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	4.33%	-0.5%	-1.7%	-1.7%	-3.7%	-22.2%
U.S. Bonds (Aggregate)	5.17%	-0.3%	-1.1%	0.3%	-0.5%	-13.7%
Global Bonds	4.07%	-0.3%	-1.5%	-0.8%	0.3%	-18.5%
U.S. Munis	3.88%	-0.1%	-0.4%	1.2%	2.8%	-4.3%
U.S. Investment Grade Corp	5.82%	-0.3%	-1.2%	1.5%	1.3%	-13.3%
U.S. High Yield Corporates	8.53%	0.2%	-0.1%	7.0%	7.5%	5.7%

US Interest Rates	Levels (%)					
	9/15/23	9/8/23	8/31/23	12/30/22	9/15/22	9/15/20
2y Treasuries	5.03	4.99	4.86	4.43	3.86	0.14
10y Treasuries	4.33	4.26	4.11	3.87	3.45	0.68
30y Treasuries	4.42	4.34	4.21	3.96	3.47	1.43
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	2.28	0.10
30y Fixed Mortgage	7.24	7.14	7.22	6.41	6.02	2.86

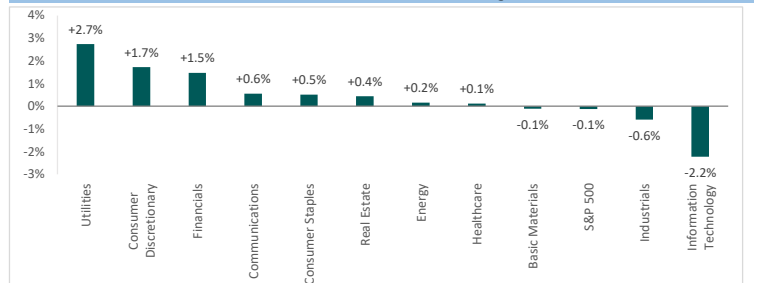
Commodity Prices	Levels					
	9/15/23	9/8/23	8/31/23	12/30/22	9/15/22	9/15/20
Oil (WTI)	90.77	87.51	83.63	80.26	85.10	38.28
Gasoline	3.87	3.82	3.82	3.20	3.69	2.18
Natural Gas	2.64	2.61	2.77	4.48	8.32	2.36
Gold	1,924	1,919	1,940	1,824	1,665	1,954

Currency Crosses	Levels					
	9/15/23	9/8/23	8/31/23	12/30/22	9/15/22	9/15/20
\$ per £	1.24	1.25	1.27	1.21	1.15	1.29
\$ per €	1.07	1.07	1.08	1.07	1.00	1.18
¥ per \$	147.9	147.8	145.5	131.1	143.5	105.4
\$ per Bitcoin	26,418	25,902	26,013	16,579	19,852	10,867

Macroeconomic Data	Value	Date	Next Rel.		
Fed Funds Target (Floor)	5.25%	09/15/23	09/20/23		
Inflation (Core PCE Deflator)	4.2%	07/31/23	09/29/23		
Inflation (Headline CPI)	3.7%	08/31/23	10/12/23		
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

Sector Total Returns for the Week Ending 09/15/23



YTD Sector Total Returns as of 09/15/23

