Weekly Market Recap - 09/22/23

Wealth Advisors, Investment Managers

Market Commentary

Weekly Recap:

Last week was a busy one on the macro front, with an abundance of fresh data:
* The FOMC left its policy rate unchanged at 5.25% to 5.50%
* US housing starts fell 11% sequentially to 1.28mn SAAR
* Residential building permits rose 7% sequentially to 1.54mn SAAR
* Initial jobless claims fell to 201k, the lowest print since January
* Continuing claims eased lower by 21k to 1.66mn, also the lowest since January
* S&P's US Composite PMI was essentially flat at 50.1 (Mfg. was higher, Svc. lower)
* The Conference Board's Leading Economic Index (LEI) fell 0.4% m/m

The decline in the LEI marked the 17th consecutive month that the index has moved lower, which is noteworthy given its strong historical track record in forecasting the US economy. The LEI is now down 7.6% on a y/y basis, and has fallen 10.5% from its recent peak at the end of 2021. Historically, y/y and absolute declines of this magnitude have always been shortly followed by a recession. See the Chart of the Week for a y/y time series.

Meanwhile, rates marched higher again last week due to a combination of factors:
* (Front end) The "dot plot" still implies one additional rate hike this year
* (Belly & long end) Concerns regarding the upcoming supply of Treasury issuance

Finally, September continues to live up to its reputation as a difficult month for stocks. The combination of higher rates, a resilient labor market, mixed signals on the strength of the US economy, and a determined Fed continue to weigh on equity valuations. The P/E multiple on the S&P 500 has lost a full turn this month, falling from 19x forward earnings at the end of August to 18x today.

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 late 2023 / early 2024, putting downside pressure on earnings.

*Valuation - The S&P 500's forward P/E of 18x 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 a roughly 50/50 chance of one additional 25bp rate hike before year-end, followed by a pause.

*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	4,320	-2.9%	-4.1%	13.9%	16.9%	36.6%
Dow Jones Indus. Avg.	33,964	-1.9%	-2.1%	4.1%	15.4%	32.2%
NASDAQ	13,212	-3.6%	-5.8%	27.0%	20.4%	23.3%
S&P Midcap 400	2,447	-2.8%	-5.6%	3.9%	11.0%	42.4%
Russell 2000 (Small Cap)	1,754	-3.8%	-6.4%	2.0%	4.8%	23.3%
MSCI EAFE (Int'l Dev Mkt Eq)	2,065	-2.0%	-2.0%	9.1%	23.1%	22.3%
MSCI EM (Emerging Mkt Eq)	964	-2.1%	-1.5%	3.3%	7.8%	-2.9%
MSCI World	2,880	-2.7%	-3.5%	12.1%	17.6%	28.7%
S&P Global 1200	3,174	-2.8%	-3.4%	12.0%	18.2%	30.5%

Fixed Income	Yield	Index Total Returns (%) 1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	4.43%	-0.7%	-2.4%	-2.4%	-2.5%	-22.9%
U.S. Bonds (Aggregate)	5.26%	-0.5%	-1.6%	-0.2%	0.4%	-14.2%
Global Bonds	4.14%	-0.5%	-2.0%	-1.3%	1.6%	-18.7%
U.S. Munis	4.06%	-1.1%	-1.4%	0.2%	3.1%	-5.4%
U.S. Investment Grade Corp	5.88%	-0.3%	-1.5%	1.2%	2.7%	-13.6%
U.S. High Yield Corporates	8.73%	-0.7%	-0.8%	6.3%	8.2%	5.8%

US Interest Rates	Levels (%) 9/22/23	9/15/23	8/31/23	12/30/22	9/22/22	9/22/20
2y Treasuries	5.11	5.03	4.86	4.43	4.12	0.14
10y Treasuries	4.43	4.33	4.11	3.87	3.71	0.67
30y Treasuries	4.52	4.42	4.21	3.96	3.64	1.42
Fed Funds (Effective Rate)	5.33	5.33	5.33	4.33	3.08	0.09
SOFR (USD)	5.30	5.31	5.31	4.30	2.99	0.07
30y Fixed Mortgage	7.23	7.24	7.22	6.41	6.29	2.87

Commodity Prices	Levels 9/22/23	9/15/23	8/31/23	12/30/22	9/22/22	9/22/20
Oil (WTI)	90.03	90.77	83.63	80.26	83.49	39.60
Gasoline	3.85	3.87	3.82	3.20	3.69	2.19
Natural Gas	2.64	2.64	2.77	4.48	7.09	1.83
Gold	1,925	1,924	1,940	1,824	1,671	1,900

Currency Crosses	Levels 9/22/23	9/15/23	8/31/23	12/30/22	9/22/22	9/22/20
$ per £	1.22	1.24	1.27	1.21	1.13	1.27
$ per €	1.07	1.07	1.08	1.07	0.98	1.17
¥ per $	148.4	147.9	145.5	131.1	142.4	104.9
$ per Bitcoin	26,538	26,418	26,013	16,579	19,248	10,516

Macroeconomic Data	Value	Date	Next Rel.
Fed Funds Target (Floor)	5.25%	09/22/23	11/01/23
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

Albion's Dashboard of Key Leading Economic Indicators as of 09/22/23

- Initial Jobless Claims (217k 4wk m/a) - Stronger: have moved lower after an early summer peak
- Conference Board LEI (-7.6% y/y) - Weaker: has declined significantly since peaking in Dec 2021
- Residential Building Permits (1,543k) - Stronger: gradual improvement after early 2023 trough
- Corporate Bond Spreads (1.08%) - 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

Sector Total Returns for the Week Ending 09/22/23

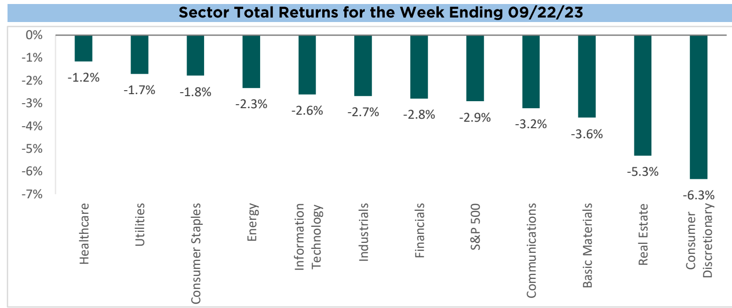
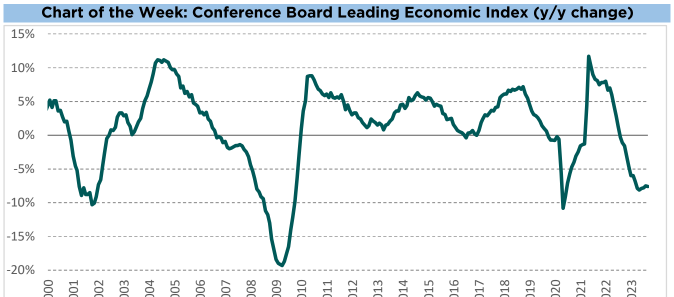


Chart of the Week: Conference Board Leading Economic Index (y/y change)



YTD Sector Total Returns as of 09/22/23