



**ALBION
FINANCIAL
GROUP**

Wealth Advisors,
Investment Managers

Market Commentary

Weekly Recap:

Labor market data dominated the narrative last week, sending bonds yields higher while producing mixed results for equities. The action got started on Tuesday, when the JOLTS report showed an unexpected 690k increase in open jobs, registering 9.6 million in the month of August. Bond yields rose immediately, the odds of another 25bp Fed rate hike prior to year-end jumped by nearly 10%, and stocks came under heavy selling pressure.

Markets promptly reversed course the very next day, when the ADP employment change for September (89k net payrolls added) came in well below expectations. Odds of another 2023 rate hike fell from slightly above 50% to below 40% on the news, and stocks enjoyed a moderate relief rally.

On Thursday, initial jobless claims held steady at just over 200k per week, extending their recent strength as employers hang onto recently hired workers even as revenue growth slows. Markets were fairly calm as all eyes looked ahead to Friday's monthly jobs report from the BLS.

Finally, Friday's nonfarm payroll print of +336k for the month of September surprised to the upside, initially sending rate hike odds and Treasury yields higher, and stocks lower. Under the covers, however, the report was a bit softer than the headline suggested, with average hourly earnings rising at a slower-than-expected +0.2% m/m, while unemployment (U3) held steady at 3.8%. As market participants digested the details, the initial knee-jerk negative reaction faded, leaving 2023 rate hike odds at slightly less than 50% to finish the week. Bond yields finished higher across the curve, especially in the belly and long end, suggesting that the current abundance of new Treasury supply may be a bigger factor than any labor market / inflation read-thru.

Albion's "Four Pillars":

***Economy & Earnings** - The US economy has shown resilience so far in 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 (Eq 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 the Fed remains committed to fighting inflation. Futures markets now imply a roughly 50/50 chance of one additional 25bp rate hike before year-end, followed by a pause.

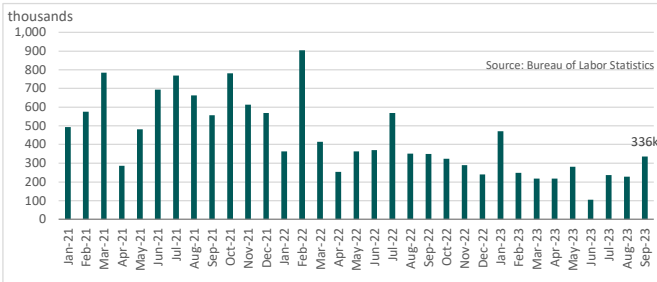
***Inflation** - After reaching 40yr highs in spring of 2022, inflation has moderated somewhat over the past 18 months. Goods inflation has fallen due to softening demand and excess inventory, while services inflation remains elevated, in part due to shelter costs which are somewhat lagged.

Albion's Dashboard of Key Leading Economic Indicators as of 10/06/23

- Initial Jobless Claims (209k 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 (1,541k) - Stronger: gradual improvement after early 2023 trough
- Corporate Bond Spreads (1.15%) - Steady: stabilized near long run averages after summer rally
- Treasury Yield Curves (73.3% inv) - Stronger: the inversion has begun to ease as longer yields rise
- Consumer Confidence (103.0) - Mixed: dropped in August & September after an early summer rebound
- Real Final Sales (+2.7% y/y) - Stronger: has rebounded after a weak first half of 2022

Legend: ● = All Clear; ● = Caution; ● = Strong Warning

Chart of the Week: Net Change in Nonfarm Payrolls



Weekly Market Recap - 10/06/23

Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
S&P 500	4,309	0.5%	0.5%	13.7%	17.0%	34.4%
Dow Jones Indus. Avg.	33,408	-0.2%	-0.2%	2.5%	14.1%	27.8%
NASDAQ	13,431	1.6%	1.6%	29.2%	22.4%	23.2%
S&P Midcap 400	2,455	-1.8%	-1.8%	2.4%	7.4%	32.7%
Russell 2000 (Small Cap)	1,746	-2.2%	-2.2%	0.3%	1.2%	15.0%
MSCI EAFE (Int'l Dev Mkt Eq)	1,994	-1.8%	-1.8%	5.6%	19.9%	15.7%
MSCI EM (Emerging Mkt Eq)	937	-1.6%	-1.6%	0.5%	6.1%	-7.3%
MSCI World	2,845	-0.3%	-0.3%	10.8%	16.7%	25.1%
S&P Global 1200	3,135	-0.1%	-0.1%	10.7%	17.5%	27.1%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	4.80%	-1.7%	-1.7%	-5.0%	-4.3%	-24.4%
U.S. Bonds (Aggregate)	5.54%	-1.2%	-1.2%	-2.4%	-0.7%	-15.7%
Global Bonds	4.31%	-1.0%	-1.0%	-3.2%	1.0%	-20.3%
U.S. Munis	4.43%	-0.6%	-0.6%	-2.0%	1.1%	-7.1%
U.S. Investment Grade Corp	6.23%	-1.4%	-1.4%	-1.4%	1.4%	-15.5%
U.S. High Yield Corporates	9.20%	-1.2%	-1.2%	4.6%	6.9%	3.2%

US Interest Rates	Levels (%)					
	10/6/23	9/29/23	9/29/23	12/30/22	10/6/22	10/6/20
2y Treasuries	5.08	5.04	5.04	4.43	4.26	0.15
10y Treasuries	4.80	4.57	4.57	3.87	3.82	0.74
30y Treasuries	4.97	4.70	4.70	3.96	3.78	1.54
Fed Funds (Effective Rate)	5.33	5.33	5.33	4.33	3.08	0.09
SOFR (USD)	5.32	5.31	5.31	4.30	3.05	0.10
30y Fixed Mortgage	7.53	7.35	7.35	6.41	6.66	2.88

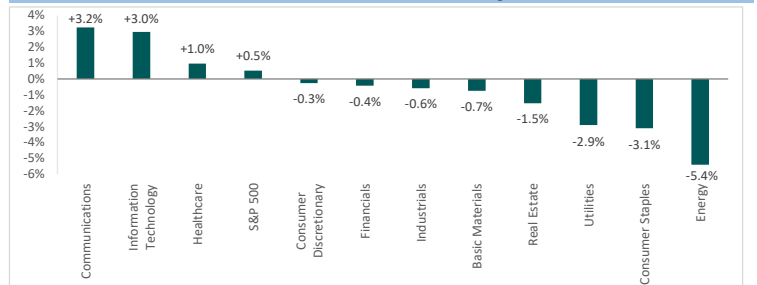
Commodity Prices	Levels					
	10/6/23	9/29/23	9/29/23	12/30/22	10/6/22	10/6/20
Oil (WTI)	82.79	90.79	90.79	80.26	88.45	40.67
Gasoline	3.72	3.82	3.82	3.20	3.89	2.18
Natural Gas	3.34	2.93	2.93	4.48	6.97	2.52
Gold	1,833	1,849	1,849	1,824	1,713	1,878

Currency Crosses	Levels					
	10/6/23	9/29/23	9/29/23	12/30/22	10/6/22	10/6/20
\$ per £	1.22	1.22	1.22	1.21	1.12	1.29
\$ per €	1.06	1.06	1.06	1.07	0.98	1.17
¥ per \$	149.3	149.4	149.4	131.1	145.1	105.6
\$ per Bitcoin	27,995	26,903	26,903	16,579	20,051	10,550

Macroeconomic Data	Value	Date	Next Rel.
Fed Funds Target (Floor)	5.25%	10/06/23	11/01/23
Inflation (Core PCE Deflator)	3.9%	08/31/23	10/27/23
Inflation (Headline CPI)	3.7%	08/31/23	10/12/23
Unemployment (U-3)	3.8%	09/30/23	11/03/23
GDP Growth (Q/Q SAAR)	2.1%	06/30/23	10/26/23
ISM Manufacturing PMI	49.0	09/30/23	11/01/23
Consumer Confidence	103.0	09/30/23	10/31/23

Data Sources:
Bloomberg, FactSet

Sector Total Returns for the Week Ending 10/06/23



YTD Sector Total Returns as of 10/06/23

