

Weekly Market Recap - 10/13/23

Market Commentary

Weekly Recap:

After absorbing the initial shock of the brutal attacks by Hamas in Israel, market participants were mostly focused on incoming inflation data last week. In the aggregate, it is fair to say that inflation came in slightly above expectations:

- * The Produce Price Index (PPI) rose 0.5% m/m vs. consensus of 0.3%
- * PPI ex food & energy rose 0.3% m/m vs. consensus of 0.2%
- * The Consumer Price Index (CPI) rose 0.4% m/m vs. consensus of 0.3%
- * CPI ex food & energy rose 0.3% m/m, in line with consensus

Consumers' inflation expectations are also on everyone's mind, including the Fed's, particularly after the spike in energy prices driven by the possibility of escalating armed conflict in Israel. Prices at the gas pump had already been elevated during the summer driving season in the US, and in the University of Michigan's preliminary October survey, consumers' 1y forward inflation expectations surged 60bp to 3.8%, the highest print in 5 months.

Rates markets reflected the general uptick in geopolitical risk aversion, with front-end yields mostly stable while belly and long bond yields fell. Rates had perhaps become a bit oversold of late, as concerns regarding a supply/demand imbalance for new Treasury issuance dominated the narrative, creating room for some bounce-back performance in the short run.

In US equities, earnings season kicked off with a number of big banks reporting better-than-expected results on Friday, as expanding net interest income more than offset relatively moribund loan growth and deal-making. As financials outperformed on Q3 results, energy and defense companies saw their stocks rise due to the events in Israel.

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 1-in-3 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.

Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
S&P 500	4,328	0.5%	1.0%	14.2%	19.9%	29.2%
Dow Jones Indus. Avg.	33,670	0.8%	0.5%	3.3%	14.5%	24.7%
NASDAQ	13,407	-0.2%	1.4%	28.9%	27.0%	15.6%
S&P Midcap 400	2,443	-0.5%	-2.3%	1.8%	8.0%	28.3%
Russell 2000 (Small Cap)	1,720	-1.5%	-3.6%	-1.2%	1.1%	9.2%
MSCI EAFE (Int'l Dev Mkt Eq)	2,013	1.0%	-0.9%	6.6%	25.9%	15.7%
MSCI EM (Emerging Mkt Eq)	951	1.5%	-0.1%	2.0%	14.8%	-8.7%
MSCI World	2,862	0.6%	0.3%	11.5%	20.7%	21.7%
S&P Global 1200	3,156	0.7%	0.5%	11.5%	21.3%	23.6%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	4.61%	1.5%	-0.2%	-3.6%	-1.8%	-23.4%
U.S. Bonds (Aggregate)	5.44%	1.0%	-0.2%	-1.4%	1.5%	-15.1%
Global Bonds	4.23%	0.7%	-0.3%	-2.5%	3.5%	-20.0%
U.S. Munis	4.26%	1.2%	0.6%	-0.8%	2.4%	-5.9%
U.S. Investment Grade Corp	6.10%	1.2%	-0.2%	-0.2%	4.5%	-14.8%
U.S. High Yield Corporates	9.11%	0.5%	-0.7%	5.1%	9.3%	3.0%

US Interest Rates	Levels (%)					
	10/13/23	10/6/23	9/29/23	12/30/22	10/13/22	10/13/20
2y Treasuries	5.05	5.08	5.04	4.43	4.46	0.14
10y Treasuries	4.61	4.80	4.57	3.87	3.94	0.73
30y Treasuries	4.75	4.97	4.70	3.96	3.92	1.51
Fed Funds (Effective Rate)	5.33	5.33	5.33	4.33	3.08	0.09
SOFR (USD)	5.31	5.31	5.31	4.30	3.04	0.09
30y Fixed Mortgage	7.63	7.53	7.35	6.41	6.92	2.87

Commodity Prices	Levels					
	10/13/23	10/6/23	9/29/23	12/30/22	10/13/22	10/13/20
Oil (WTI)	87.69	82.79	90.79	80.26	89.11	40.20
Gasoline	3.61	3.72	3.82	3.20	3.90	2.18
Natural Gas	3.24	3.34	2.93	4.48	6.74	2.86
Gold	1,933	1,833	1,849	1,824	1,666	1,891

Currency Crosses	Levels					
	10/13/23	10/6/23	9/29/23	12/30/22	10/13/22	10/13/20
\$ per £	1.21	1.22	1.22	1.21	1.13	1.29
\$ per €	1.05	1.06	1.06	1.07	0.98	1.17
¥ per \$	149.6	149.3	149.4	131.1	147.1	105.5
\$ per Bitcoin	26,977	27,995	26,903	16,579	19,387	11,435

Macroeconomic Data	Value	Date	Next Rel.	Data Sources:	
				Bloomberg	FactSet
Fed Funds Target (Floor)	5.25%	10/13/23	11/01/23		
Inflation (Core PCE Deflator)	3.9%	08/31/23	10/27/23		
Inflation (Headline CPI)	3.7%	09/30/23	11/14/23		
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		

Albion's Dashboard of Key Leading Economic Indicators as of 10/13/23

- 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 (114%) - Steady: stabilized near long run averages after summer rally
- Treasury Yield Curves (77.8% 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

Sector Total Returns for the Week Ending 10/13/23

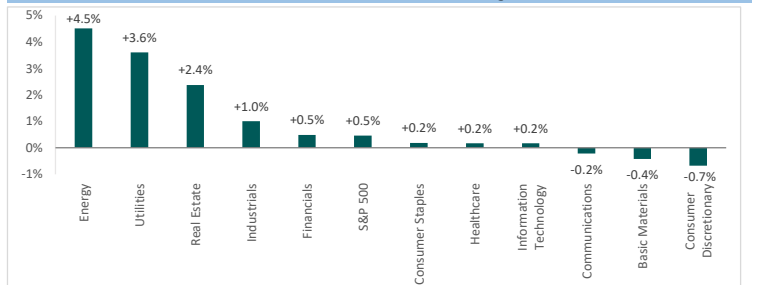


Chart of the Week: Consumer Price Index (y/y change)



YTD Sector Total Returns as of 10/13/23

