



Health Advisors,  
Investment Managers

# Weekly Market Recap - 10/20/23

## Market Commentary

### Weekly Recap:

Bond yields had initially fallen in the immediate aftermath of the attacks by Hamas in Israel as financial markets experienced a "flight-to-safety", but that moment proved short-lived as yields resumed their march higher last week. 10y and 30y yields rose by 30+ basis points as most of the Treasury curve hovered around 5%.

Rising yields in the belly and long end of the curve continue to put pressure on P/E multiples and stock prices, even as corporate earnings appear poised to return to y/y growth when the Q3 earnings cycle is completed. Equities experienced broad-based declines last week across most sectors, market caps, and geographies.

Despite the recent declines, US stocks have had a solidly positive year in the aggregate (particularly the large cap growth companies). As a result of resilient stock performance and the ongoing rise in bond yields, relative value between stocks and bonds has shifted as the equity risk premium (ERP) has declined. One way to measure the ERP (admittedly a very simple one) is to compare the yield-to-worst on the US Aggregate Bond Index (5.67% as of Friday's close) with the earnings yield on the S&P 500 (5.65%), and by this method the ERP is now effectively zero. In fact, this is the first time that the yield on the Agg has exceeded the S&P's earnings yield since 2002.

Macro data released last week suggested a continuation of existing trends for the economy, including mixed signals in manufacturing (industrial production up 0.3%, but prior month revised lower by 40bp) and housing (permits down 4% m/m, starts up 7%), a resilient consumer (retail sales +0.7% m/m), and a strong labor market (sub-200k initial jobless claims). Lastly, the Conference Board's Leading Economic Index (LEI) fell for the 18th month in a row, and remains at y/y levels that in the past have always been associated with the imminent onset of recession.

### 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	4,224	-2.4%	-1.4%	11.5%	17.2%	28.6%
Dow Jones Indus. Avg.	33,127	-1.6%	-1.0%	1.7%	11.6%	24.4%
NASDAQ	12,984	-3.2%	-1.8%	24.9%	23.4%	15.4%
S&P Midcap 400	2,393	-2.0%	-4.3%	-0.2%	7.5%	26.2%
Russell 2000 (Small Cap)	1,681	-2.3%	-5.8%	-3.4%	0.2%	8.0%
MSCI EAFE (Int'l Dev Mkt Eq)	1,960	-2.6%	-3.5%	3.9%	19.3%	13.8%
MSCI EM (Emerging Mkt Eq)	926	-2.7%	-2.8%	-0.7%	10.4%	-11.0%
MSCI World	2,791	-2.5%	-2.1%	8.7%	16.8%	20.7%
S&P Global 1200	3,078	-2.4%	-1.9%	8.7%	18.0%	22.5%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	4.91%	-2.2%	-2.4%	-5.8%	-1.8%	-24.6%
U.S. Bonds (Aggregate)	5.67%	-1.7%	-1.9%	-3.1%	1.3%	-16.3%
Global Bonds	4.38%	-1.0%	-1.3%	-3.5%	3.0%	-20.9%
U.S. Munis	4.48%	-1.4%	-0.8%	-2.2%	1.1%	-7.2%
U.S. Investment Grade Corp	6.37%	-2.1%	-2.3%	-2.3%	3.9%	-16.2%
U.S. High Yield Corporates	9.44%	-1.2%	-1.8%	3.9%	7.6%	1.9%

US Interest Rates	Levels (%)					
	10/20/23	10/13/23	9/29/23	12/30/22	10/20/22	10/20/20
2y Treasuries	5.07	5.05	5.04	4.43	4.61	0.14
10y Treasuries	4.91	4.61	4.57	3.87	4.23	0.79
30y Treasuries	5.08	4.75	4.70	3.96	4.22	1.59
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	3.03	0.08
30y Fixed Mortgage	7.71	7.63	7.35	6.41	6.94	2.81

Commodity Prices	Levels					
	10/20/23	10/13/23	9/29/23	12/30/22	10/20/22	10/20/20
Oil (WTI)	88.75	87.69	90.79	80.26	85.98	41.46
Gasoline	3.55	3.61	3.82	3.20	3.82	2.16
Natural Gas	2.90	3.24	2.93	4.48	5.36	2.91
Gold	1,981	1,933	1,849	1,824	1,628	1,907

Currency Crosses	Levels					
	10/20/23	10/13/23	9/29/23	12/30/22	10/20/22	10/20/20
\$ per £	1.22	1.21	1.22	1.21	1.12	1.29
\$ per €	1.06	1.05	1.06	1.07	0.98	1.18
¥ per \$	149.9	149.6	149.4	131.1	150.2	105.5
\$ per Bitcoin	29,601	26,977	26,903	16,579	19,030	11,905

Macroeconomic Data	Value	Date	Next Rel.
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

Data Sources:  
Bloomberg, FactSet

### Albion's Dashboard of Key Leading Economic Indicators as of 10/20/23

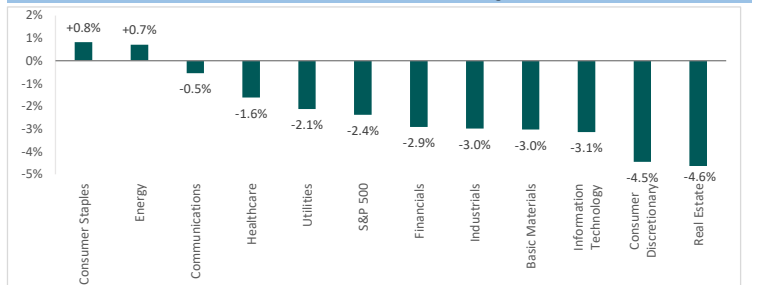
- Initial Jobless Claims (206k 4wk m/a) - Stronger: have moved lower after an early summer peak
- Conference Board LEI (-7.8% y/y) - Weaker: has declined significantly since peaking in Dec 2021
- Residential Building Permits (1,473k) - Stronger: gradual improvement after early 2023 trough
- Corporate Bond Spreads (1.20%) - 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

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



### Sector Total Returns for the Week Ending 10/20/23



### YTD Sector Total Returns as of 10/20/23

