



Health Advisors,
Investment Managers

Weekly Market Recap - 10/27/23

Market Commentary

Weekly Recap:

Global risk premia expanded last week as the war between Israel and Hamas intensified, with an increase in rocket and missile attacks ahead of what appears to be an imminent ground invasion of Gaza by the Israeli army. Meanwhile, the US conducted air strikes inside Syria in retaliation for what it believes were Iran-backed drone attacks on US military bases and personnel in the area.

Treasury yields were volatile but finished the week lower, as the flight-to-safety temporarily outweighed concerns regarding upcoming supply. Bond investors were happy for the reprieve, as stable credit spreads passed the price gains from Treasuries through to corporates as well.

Equities were not so fortunate, as the deepening conflict in the middle east weighed on sentiment despite relatively healthy US macro data. Most US benchmarks were down 2-3% on the week, with international stocks faring slightly better.

The first estimate of Q3 US GDP was released last week, with the economy growing 4.9% q/q annualized. The outsized growth was fueled primarily by a combination of consumer spending, inventory build, and government expenditures. None of those factors appear sustainable at these levels, and economists expect growth to slow significantly in the coming quarters, even if recession is avoided. See the Chart of the Week for a GDP time series with consensus estimates for 2023/24.

Finally, on the inflation front, Core PCE for September (+0.3% m/m; +3.7% y/y) was in line with expectations. However, the University of Michigan's estimate of consumers' 1-year forward inflation expectations jumped to 4.2%, a development worth watching given the sensitivity of energy (and thus gasoline) prices to conflict in the middle east.

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 17x 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 in late 2023 / early 2024, 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	4,117	-2.5%	-3.9%	8.7%	10.0%	27.3%
Dow Jones Indus. Avg.	32,418	-2.1%	-3.2%	-0.5%	3.4%	25.4%
NASDAQ	12,643	-2.6%	-4.3%	21.6%	18.2%	13.2%
S&P Midcap 400	2,327	-2.8%	-6.9%	-3.0%	-1.0%	25.1%
Russell 2000 (Small Cap)	1,637	-2.6%	-8.2%	-5.9%	-7.9%	7.0%
MSCI EAFE (Int'l Dev Mkt Eq)	1,945	-0.8%	-4.2%	3.1%	14.1%	15.3%
MSCI EM (Emerging Mkt Eq)	920	-0.6%	-3.4%	-1.3%	10.3%	-11.6%
MSCI World	2,732	-2.1%	-4.2%	6.4%	10.1%	20.2%
S&P Global 1200	3,015	-2.0%	-3.9%	6.5%	11.4%	22.0%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	4.83%	0.7%	-1.7%	-5.1%	-3.6%	-24.2%
U.S. Bonds (Aggregate)	5.58%	0.7%	-1.3%	-2.5%	0.0%	-15.8%
Global Bonds	4.32%	0.4%	-0.9%	-3.1%	0.9%	-20.8%
U.S. Munis	4.49%	0.0%	-0.9%	-2.3%	2.7%	-7.3%
U.S. Investment Grade Corp	6.28%	0.8%	-1.5%	-1.5%	2.6%	-15.9%
U.S. High Yield Corporates	9.35%	0.4%	-1.5%	4.3%	6.0%	2.6%

US Interest Rates	Levels (%)					
	10/27/23	10/20/23	9/29/23	12/30/22	10/27/22	10/27/20
2y Treasuries	5.00	5.07	5.04	4.43	4.27	0.15
10y Treasuries	4.83	4.91	4.57	3.87	3.92	0.77
30y Treasuries	5.01	5.08	4.70	3.96	4.08	1.55
Fed Funds (Effective Rate)	5.33	5.33	5.33	4.33	3.08	0.09
SOFR (USD)	5.31	5.30	5.31	4.30	3.04	0.09
30y Fixed Mortgage	7.79	7.71	7.35	6.41	7.08	2.80

Commodity Prices	Levels					
	10/27/23	10/20/23	9/29/23	12/30/22	10/27/22	10/27/20
Oil (WTI)	85.54	88.75	90.79	80.26	89.08	39.57
Gasoline	3.50	3.55	3.82	3.20	3.76	2.15
Natural Gas	3.16	2.90	2.93	4.48	5.19	3.02
Gold	2,006	1,981	1,849	1,824	1,663	1,908

Currency Crosses	Levels					
	10/27/23	10/20/23	9/29/23	12/30/22	10/27/22	10/27/20
\$ per £	1.21	1.22	1.22	1.21	1.16	1.30
\$ per €	1.06	1.06	1.06	1.07	1.00	1.18
¥ per \$	149.7	149.9	149.4	131.1	146.3	104.4
\$ per Bitcoin	33,837	29,601	26,903	16,579	20,400	13,621

Macroeconomic Data	Value	Date	Next Rel.
Inflation (Core PCE Deflator)	3.7%	09/30/23	11/30/23
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)	4.9%	09/30/23	11/29/23
ISM Manufacturing PMI	49.0	09/30/23	11/01/23
Consumer Confidence	103.0	09/30/23	10/31/23

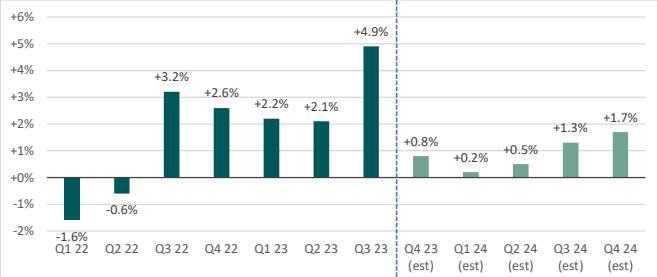
Data Sources:
Bloomberg, FactSet

Albion's Dashboard of Key Leading Economic Indicators as of 10/27/23

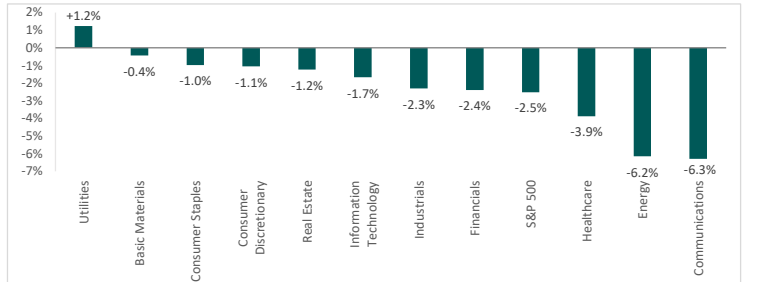
- Initial Jobless Claims (208k 4wk m/a) - Stronger: have moved lower after an early summer peak
- Conference Board LEI (-7.8% y/y) - Weaker: has declined significantly since peaking in Dec 2021
- Residential Building Permits (1,471k) - Stronger: gradual improvement after early 2023 trough
- Corporate Bond Spreads (118%) - Steady: stabilized near long run averages after summer rally
- Treasury Yield Curves (0.0% 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 (+2.8% y/y) - Stronger: has rebounded after a weak first half of 2022

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

Chart of the Week: US GDP Growth (q/q, annualized)



Sector Total Returns for the Week Ending 10/27/23



YTD Sector Total Returns as of 10/27/23

