



Health Advisors,
Investment Managers

Weekly Market Recap - 11/03/23

Market Commentary

Weekly Recap:

What a difference a week makes! Bond yields fell sharply on a relatively benign (compared to expectations at least) quarterly refunding plan from the US Treasury, a somewhat dovish-sounding Jerome Powell (again, relative to expectations) at the November FOMC meeting, and a monthly jobs report that saw lower-than-expected nonfarm payrolls and wage gains, as well as a tick higher in unemployment.

After very briefly trading above 5% intraday on October 23rd, 10y Treasury yields had fallen more than 40bp by the end of last week, with 30y yields lower by a similar amount. Meanwhile, futures markets had all but eliminated any expectations of an additional 25bp rate hike before the inevitable long pause, with odds settling at around 5% for the December meeting and topping out at 10% in January of 2024.

The abrupt fall in rates eased some of the recent pressure on P/E multiples. US equities surged 5% on the week, with most benchmarks finishing higher every single day. Rate-sensitive sectors were the biggest beneficiaries, including real estate and longer-duration growth stocks. International stocks were better as well, but to a slightly lesser degree than domestics.

Behind the scenes amidst all of the recent rates-driven price volatility, Q3 earnings season has been coming in slightly better than expected. By the end of the week, 81% of the companies in the S&P 500 had reported Q3 numbers, with a blended earnings growth rate of +3.7% y/y, on revenue growth of +2.3% y/y plus 40bp of margin expansion to an average net margin of 12.0%. The pivot to earnings growth follows three consequence quarters were earnings for the S&P 500 were lower on a y/y basis.

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 only a 10% chance of another 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	4,358	5.9%	3.9%	15.0%	19.1%	35.6%
Dow Jones Indus. Avg.	34,061	5.1%	3.1%	4.5%	8.7%	31.7%
NASDAQ	13,478	6.6%	4.9%	29.6%	31.5%	23.6%
S&P Midcap 400	2,478	6.6%	4.7%	3.4%	6.5%	31.0%
Russell 2000 (Small Cap)	1,761	7.6%	5.9%	1.2%	0.5%	13.4%
MSCI EAFE (Int'l Dev Mkt Eq)	2,031	4.4%	4.3%	7.7%	21.3%	20.4%
MSCI EM (Emerging Mkt Eq)	948	3.1%	3.6%	1.8%	13.6%	-7.7%
MSCI World	2,884	5.6%	4.2%	12.4%	18.8%	27.5%
S&P Global 1200	3,180	5.5%	4.1%	12.4%	19.8%	29.2%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	4.57%	2.2%	2.7%	-3.0%	0.1%	-21.8%
U.S. Bonds (Aggregate)	5.30%	2.0%	2.3%	-0.5%	3.0%	-13.8%
Global Bonds	4.14%	1.9%	2.2%	-1.2%	4.8%	-18.9%
U.S. Munis	4.23%	1.9%	1.8%	-0.4%	4.2%	-5.6%
U.S. Investment Grade Corp	6.00%	2.1%	2.5%	0.6%	5.5%	-13.6%
U.S. High Yield Corporates	8.83%	2.8%	2.5%	7.2%	9.9%	5.5%

US Interest Rates	Levels (%)					
	11/3/23	10/27/23	10/31/23	12/30/22	11/3/22	11/3/20
2y Treasuries	4.84	5.00	5.09	4.43	4.71	0.17
10y Treasuries	4.57	4.83	4.93	3.87	4.15	0.90
30y Treasuries	4.77	5.01	5.09	3.96	4.18	1.68
Fed Funds (Effective Rate)	5.33	5.33	5.33	4.33	3.83	0.09
SOFR (USD)	5.32	5.31	5.35	4.30	3.80	0.10
30y Fixed Mortgage	7.72	7.79	7.79	6.41	6.95	2.81

Commodity Prices	Levels					
	11/3/23	10/27/23	10/31/23	12/30/22	11/3/22	11/3/20
Oil (WTI)	80.51	85.54	81.02	80.26	88.17	37.66
Gasoline	3.43	3.50	3.46	3.20	3.79	2.12
Natural Gas	3.52	3.16	3.58	4.48	5.98	3.06
Gold	1,993	2,006	1,984	1,824	1,629	1,909

Currency Crosses	Levels					
	11/3/23	10/27/23	10/31/23	12/30/22	11/3/22	11/3/20
\$ per E	1.24	1.21	1.22	1.21	1.12	1.31
\$ per €	1.07	1.06	1.06	1.07	0.97	1.17
¥ per \$	149.4	149.7	151.7	131.1	148.3	104.5
\$ per Bitcoin	34,621	33,837	34,651	16,579	20,239	13,741

Macroeconomic Data	Value	Date	Next Rel.	Data Sources:	
				Bloomberg	FactSet
Fed Funds Target (Floor)	5.25%	11/03/23	12/13/23		
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)	3.9%	10/31/23	12/08/23		
GDP Growth (Q/Q SAAR)	4.9%	09/30/23	11/29/23		
ISM Manufacturing PMI	46.7	10/31/23	12/01/23		
Consumer Confidence	102.6	10/31/23	11/28/23		

Albion's Dashboard of Key Leading Economic Indicators as of 11/03/23

- Initial Jobless Claims (210k 4wk m/a) - Steady: have been close to 200k/week for several months
- 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 (1.16%) - Steady: stabilized near long run averages after summer rally
- Treasury Yield Curves (71.1% inv) - Stronger: the inversion has begun to ease as longer yields rise
- Consumer Confidence (102.6) - Weaker: dropped in the fall 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

Sector Total Returns for the Week Ending 11/03/23

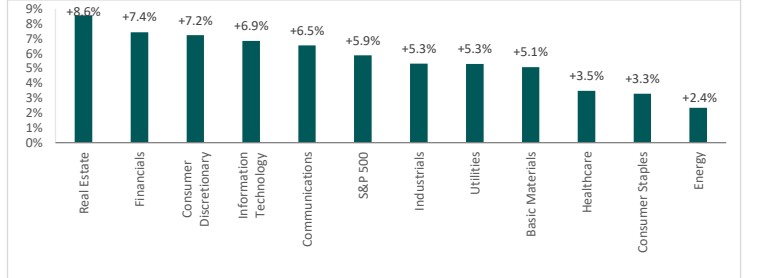
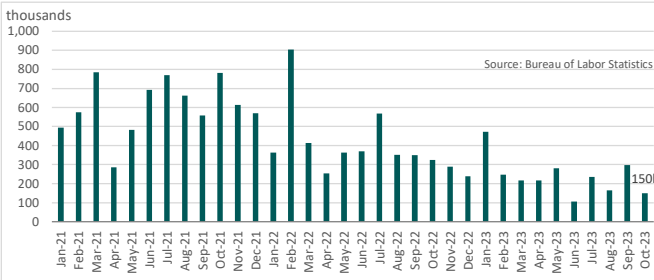


Chart of the Week: US Net Nonfarm Payrolls Added (m/m change)



YTD Sector Total Returns as of 11/03/23

