Weekly Market Recap - 11/17/23

ALBION FINANCIAL GROUP
Wealth Advisors, Investment Managers

Market Commentary

Weekly Recap:

Three straight days of better-than-expected inflation data fueled a strong rally in stocks and bonds last week. The party got started on Tuesday, when CPI for October showed sequential deceleration and came in lower than consensus across the board:
* Headline CPI was flat m/m and +3.2% y/y (prior = +0.4% m/m and +3.7% y/y)
* Core CPI was +0.2% m/m and +4.0% y/y (prior = +0.3% m/m and +4.1% y/y)

Then on Wednesday, the Producer Price Index (PPI) also cooled by more than expected in October, with Headline PPI seeing outright sequential deflation at -0.5% m/m while the y/y figure fell to just +1.3%. Excluding food & energy, Core PPI was flat sequentially and fell to +2.4% y/y.

And finally on Thursday, trade prices remained firmly in deflation territory, adding some downward pressure on goods prices for the US consumer. Import prices printed at -0.8% m/m in October and dropped to -2.0% y/y, while export prices were -1.1% m/m and fell to -4.9% y/y. Outright deflation in trade prices is not entirely uncommon and does not indicate an overall deflationary environment, but is nevertheless a helpful contributor to the general disinflationary trend.

The response from investors was enthusiastic. Yields moved lower by 15-20 basis points across the Treasury curve, and all probability of another 25bp rate hike this year or next year was removed from futures markets. Meanwhile, the rally in stocks was strongest in parts of the market that have been unloved this year, including so-called "bond substitutes" like real estate and utilities on a yield-driven relative value trade, as well as US small caps which were up 5+% on Tuesday alone.

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 18.6x 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 imply zero odds of another 25bp rate hike, and that the Fed will begin cutting rates in mid-2024.

*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	1 Week	MTD	YTD	1 Year	3y Cum.
		Index Total Returns (%)				
S&P 500	4,514	2.3%	7.8%	19.3%	16.3%	31.1%
Dow Jones Indus. Avg.	34,947	2.1%	5.9%	7.5%	6.4%	24.7%
NASDAQ	14,125	2.4%	10.0%	36.0%	27.8%	21.5%
S&P Midcap 400	2,537	4.0%	7.3%	5.9%	3.5%	22.9%
Russell 2000 (Small Cap)	1,798	5.5%	8.3%	3.5%	-0.7%	4.3%
MSCI EAFE (Int'l Dev Mkt Eq)	2,101	4.5%	8.0%	11.5%	14.2%	13.3%
MSCI EM (Emerging Mkt Eq)	977	3.0%	6.8%	4.8%	6.9%	-11.4%
MSCI World	2,985	3.0%	7.9%	16.4%	14.9%	22.3%
S&P Global 1200	3,292	3.0%	7.9%	16.5%	15.3%	23.7%

Fixed Income	Yield	1 Week	MTD	YTD	1 Year	3y Cum.
		Index Total Returns (%)				
10y U.S. Treasuries	4.44%	1.5%	3.8%	-1.9%	-1.9%	-21.2%
U.S. Bonds (Aggregate)	5.21%	1.4%	3.4%	0.5%	1.2%	-13.4%
Global Bonds	4.04%	1.9%	3.7%	0.2%	1.5%	-18.5%
U.S. Munis	3.92%	1.3%	4.0%	1.7%	3.0%	-4.4%
U.S. Investment Grade Corp	5.83%	1.8%	4.3%	2.3%	3.4%	-13.4%
U.S. High Yield Corporates	8.73%	0.9%	3.0%	7.8%	8.4%	3.6%

US Interest Rates	11/17/23	11/10/23	10/31/23	12/30/22	11/17/22	11/17/20
	Levels (%)					
2y Treasuries	4.89	5.06	5.09	4.43	4.45	0.17
10y Treasuries	4.44	4.65	4.93	3.87	3.77	0.86
30y Treasuries	4.59	4.76	5.09	3.96	3.88	1.61
Fed Funds (Effective Rate)	5.33	5.33	5.33	4.33	3.83	0.09
SOFR (USD)	5.32	5.32	5.35	4.30	3.80	0.09
30y Fixed Mortgage	7.25	7.35	7.79	6.41	6.56	2.84

Commodity Prices	11/17/23	11/10/23	10/31/23	12/30/22	11/17/22	11/17/20
	Levels					
Oil (WTI)	75.89	77.17	81.02	80.26	81.64	41.43
Gasoline	3.32	3.38	3.46	3.20	3.71	2.12
Natural Gas	2.96	3.03	3.58	4.48	6.37	2.69
Gold	1,981	1,940	1,984	1,824	1,760	1,880

Currency Crosses	11/17/23	11/10/23	10/31/23	12/30/22	11/17/22	11/17/20
	Levels					
$ per £	1.25	1.22	1.22	1.21	1.19	1.32
$ per €	1.09	1.07	1.06	1.07	1.04	1.19
¥ per $	149.6	151.5	151.7	131.1	140.2	104.2
$ per Bitcoin	36,419	37,293	34,651	16,579	16,681	17,639

Macroeconomic Data	Value	Date	Next Rel.
Fed Funds Target (Floor)	5.25%	11/17/23	12/13/23
Inflation (Core PCE Deflator)	3.7%	09/30/23	11/30/23
Inflation (Headline CPI)	3.2%	10/31/23	12/12/23
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

Data Sources: Bloomberg, FactSet

Albion's Dashboard of Key Leading Economic Indicators as of 11/17/23

- Initial Jobless Claims (220k 4wk m/a) - Weaker: claims have slowly crept higher in recent weeks
- Conference Board LEI (-7.8% y/y) - Weaker: has declined significantly since peaking in Dec 2021
- Residential Building Permits (1,487k) - Stronger: gradual improvement after early 2023 trough
- Corporate Bond Spreads (1.07%) - Steady: stabilized near long run averages after summer rally
- Treasury Yield Curves (80.0% 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 11/17/23

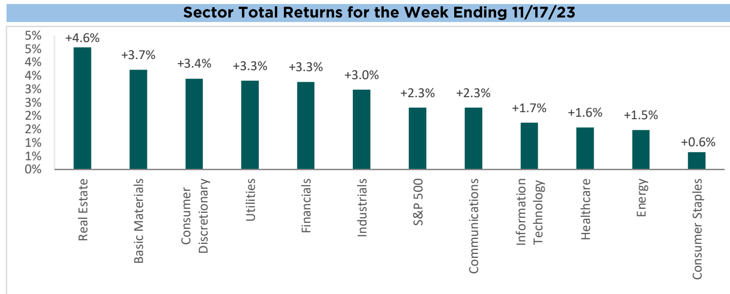
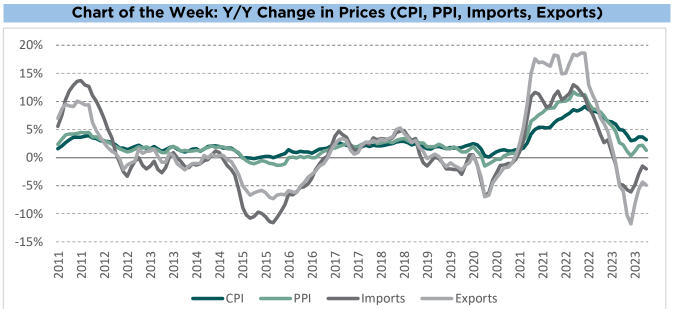


Chart of the Week: Y/Y Change in Prices (CPI, PPI, Imports, Exports)



YTD Sector Total Returns as of 11/17/23