

Market Commentary
Weekly Recap:

Equities rose and bonds were mixed during a relatively quiet, holiday-shortened week. The S&P 500, Nasdaq Composite, and Dow Jones Industrial Average all rose for the 4th consecutive week, and all finished less than 1% below their respective YTD highs set in late July. Small caps and international stocks were also better last week, but continue to lag US large caps on a YTD basis.

Bonds were mixed, with Treasury yields inching higher after the November FOMC meeting minutes reminded investors that the Fed does not consider the inflation fight to be over. Coming into the week, futures markets were pricing a 0% chance of another 25bp rate hike occurring by early next year, but by the end of the week that had risen to an implied probability of around 13% (roughly a 1-in-8 chance). 2y yields were pushed higher by 6bp as the yield curve inversion deepened slightly.

Meanwhile, credit markets continue to be buoyant, to the benefit of corporate bond prices which have rallied sharply in recent weeks. Index average investment grade credit spreads finished the week at 102bp, the tightest level since early 2022 (see the Chart of the Week for a time series). It is fair to say that credit markets are not pricing in any meaningful probability of a recession in the near term.

Incoming macro data paints a less rosy picture than credit and equity markets. Last week alone, the Conference Board's Leading Economic Index (LEI) fell for the 19th month in a row, existing home sales fell sequentially for the 5th straight month, durable goods orders declined by more than expected in October, S&P's US Manufacturing PMI fell into contraction territory, and the University of Michigan's Consumer Sentiment Index deteriorated across the board, with 5-10y inflation expectations reaching a fresh cycle high of 3.2%.

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 19x 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 very low 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.

Albion's Dashboard of Key Leading Economic Indicators as of 11/24/23

- Initial Jobless Claims (220k 4wk m/a) - Weaker: claims have slowly crept higher in recent weeks
- Conference Board LEI (-7.6% y/y) - Weaker: has declined significantly since peaking in Dec 2021
- Residential Building Permits (1,498k) - Stronger: gradual improvement after early 2023 trough
- Corporate Bond Spreads (1.02%) - Stronger: spreads have rallied in November as equities rise
- Treasury Yield Curves (80.0% inv) - Steady: the curve remains almost fully inverted
- 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

Chart of the Week: US Investment Grade Credit Spread (Index Average)

Weekly Market Recap - 11/24/23
Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
S&P 500	4,559	1.0%	8.9%	20.5%	15.1%	31.4%
Dow Jones Indus. Avg.	35,390	1.3%	7.0%	8.8%	5.7%	25.1%
NASDAQ	14,251	0.9%	11.0%	37.2%	27.4%	21.2%
S&P Midcap 400	2,560	0.9%	8.3%	6.9%	2.2%	20.8%
Russell 2000 (Small Cap)	1,808	0.6%	8.9%	4.0%	-1.4%	1.4%
MSCI EAFE (Int'l Dev Mkt Eq)	2,122	-1.1%	9.1%	12.7%	12.7%	13.1%
MSCI EM (Emerging Mkt Eq)	980	0.5%	7.3%	5.3%	8.4%	-12.7%
MSCI World	3,015	1.0%	9.0%	17.6%	13.6%	22.1%
S&P Global 1200	3,323	1.0%	9.0%	17.6%	14.2%	23.6%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	4.47%	-0.3%	3.6%	-2.2%	-2.9%	-21.3%
U.S. Bonds (Aggregate)	5.24%	-0.1%	3.3%	0.5%	0.2%	-13.6%
Global Bonds	4.08%	0.2%	3.9%	0.4%	0.7%	-18.5%
U.S. Munis	3.83%	0.6%	4.7%	2.4%	3.3%	-4.3%
U.S. Investment Grade Corp	5.81%	0.3%	4.5%	2.6%	2.3%	-13.6%
U.S. High Yield Corporates	8.61%	0.5%	3.5%	8.3%	7.8%	3.4%

US Interest Rates	Levels (%)					
	11/24/23	11/17/23	10/31/23	12/30/22	11/23/22	11/24/20
2y Treasuries	4.95	4.89	5.09	4.43	4.48	0.16
10y Treasuries	4.47	4.44	4.93	3.87	3.69	0.88
30y Treasuries	4.60	4.59	5.09	3.96	3.73	1.61
Fed Funds (Effective Rate)	5.33	5.33	5.33	4.33	3.83	0.08
S&FR (USD)	5.32	5.32	5.35	4.30	3.79	0.07
30y Fixed Mortgage	7.13	7.25	7.79	6.41	6.56	2.72

Commodity Prices	Levels					
	11/24/23	11/17/23	10/31/23	12/30/22	11/23/22	11/24/20
Oil (WTI)	75.54	75.89	81.02	80.26	77.94	44.91
Gasoline	3.26	3.32	3.46	3.20	3.59	2.12
Natural Gas	2.86	2.96	3.58	4.48	7.31	2.78
Gold	2,001	1,981	1,984	1,824	1,750	1,808

Currency Crosses	Levels					
	11/24/23	11/17/23	10/31/23	12/30/22	11/23/22	11/24/20
\$ per £	1.26	1.25	1.22	1.21	1.21	1.34
\$ per €	1.09	1.09	1.06	1.07	1.04	1.19
¥ per \$	149.4	149.6	151.7	131.1	139.6	104.4
\$ per Bitcoin	37,858	36,419	34,651	16,579	16,472	18,945

Macroeconomic Data	Value	Date	Next Rel.
Fed Funds Target (Floor)	5.25%	11/24/23	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

Sector Total Returns for the Week Ending 11/24/23

YTD Sector Total Returns as of 11/24/23
