



**ALBION
FINANCIAL
GROUP**

Wealth Advisors,
Investment Managers

Market Commentary

Weekly Recap:

Much like the rest of the month, the last week of November (and the first day of December) featured rapidly falling bond yields, which in turn drove stocks higher via P/E multiple expansion. By week's end, 10-year Treasury yields had fallen nearly 80 basis points from their recent cycle high on October 19th. During that time, the bond market narrative has shifted dramatically. In mid-October, investors fretted that the deluge of supply coming from the US Treasury would overwhelm a shrinking buyer base, pushing yields even higher. Since then, fixed income investors have embraced the disinflationary trend, and have been encouraged by public statements from FOMC members that appear to suggest that the hiking cycle is over (despite occasional comments from Jerome Powell that are clearly intended to leave the door open just a crack).

As discount rates have fallen, P/E multiples have expanded, pushing stock prices sharply higher. Cyclical (ex energy) were the biggest beneficiary last week, perhaps owing some of their strength to an upwardly revised Q3 GDP print (to 5.2% q/q annualized) that may have increased some investors' confidence that a soft landing had already been achieved (note that Albion does not share this view). See the Chart of the Week for annualized GDP growth in recent quarter along with consensus estimate through the end of 2024.

October PCE data released last week reinforced the disinflationary trend, with headline PCE flat sequentially while core (ex food & energy) PCE was just 0.2% m/m. On an annualized basis, the last six months worth of Core PCE data point to a real time inflation rate of just 2.5%. The past three months of core PCE are even more sanguine at just 2.35% annualized.

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.

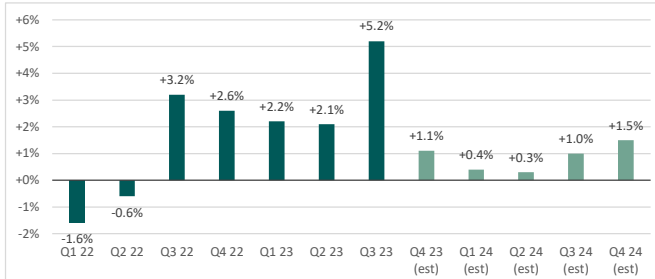
*Inflation - After reaching 40yr highs in spring of 2022, inflation has moderated significantly over the past 18 months. Goods inflation has fallen due to softening demand and excess inventory, while services inflation remains elevated, in part due to shelter costs which are somewhat lagged.

Albion's Dashboard of Key Leading Economic Indicators as of 12/01/23

● 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 (0.98%) - Stronger: rallied in November as equities rose
● Treasury Yield Curves (75.6% inv) - Steady: the curve remains almost fully inverted
● Consumer Confidence (102.0) - 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: USD GDP Growth with Consensus Estimates (q/q, annualized)



Weekly Market Recap - 12/01/23

Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
S&P 500	4,595	0.8%	0.6%	21.5%	14.6%	31.5%
Dow Jones Indus. Avg.	36,246	2.6%	0.9%	11.7%	7.7%	29.2%
NASDAQ	14,305	0.4%	0.6%	37.8%	25.7%	18.5%
S&P Midcap 400	2,626	2.6%	2.4%	9.7%	3.9%	25.2%
Russell 2000 (Small Cap)	1,863	3.1%	3.0%	7.3%	0.6%	5.5%
MSCI EAFE (Int'l Dev Mkt Eq)	2,130	0.4%	0.3%	13.1%	10.3%	12.7%
MSCI EM (Emerging Mkt Eq)	982	0.2%	-0.5%	5.5%	3.5%	-12.4%
MSCI World	3,041	0.9%	0.6%	18.7%	12.8%	22.1%
S&P Global 1200	3,349	0.8%	0.7%	18.6%	13.1%	23.6%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	4.20%	2.2%	1.0%	0.0%	-2.3%	-19.1%
U.S. Bonds (Aggregate)	4.91%	2.0%	0.9%	2.5%	1.0%	-11.8%
Global Bonds	3.85%	1.5%	0.4%	1.9%	0.7%	-17.5%
U.S. Munis	3.55%	1.8%	0.2%	4.1%	4.0%	-2.7%
U.S. Investment Grade Corp	5.47%	2.3%	0.9%	4.9%	3.2%	-11.8%
U.S. High Yield Corporates	8.35%	1.3%	0.3%	9.7%	8.1%	4.3%

US Interest Rates	Levels (%)					
	12/1/23	11/24/23	11/30/23	12/30/22	12/1/22	12/1/20
2y Treasuries	4.54	4.95	4.68	4.43	4.23	0.17
10y Treasuries	4.20	4.47	4.33	3.87	3.50	0.93
30y Treasuries	4.39	4.60	4.49	3.96	3.60	1.67
Fed Funds (Effective Rate)	5.33	5.33	5.33	4.33	3.83	0.09
SOFR (USD)	5.39	5.32	5.33	4.30	3.82	0.08
30y Fixed Mortgage	7.13	7.13	7.13	6.41	6.39	2.72

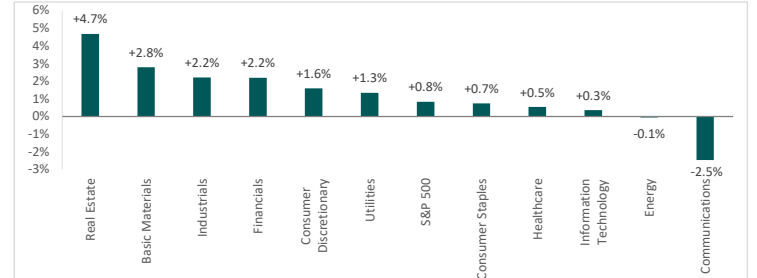
Commodity Prices	Levels					
	12/1/23	11/24/23	11/30/23	12/30/22	12/1/22	12/1/20
Oil (WTI)	74.07	75.54	75.96	80.26	81.22	44.55
Gasoline	3.25	3.26	3.25	3.20	3.45	2.16
Natural Gas	2.81	2.86	2.80	4.48	6.74	2.88
Gold	2,072	2,001	2,036	1,824	1,803	1,815

Currency Crosses	Levels					
	12/1/23	11/24/23	11/30/23	12/30/22	12/1/22	12/1/20
\$ per £	1.27	1.26	1.26	1.21	1.22	1.34
\$ per €	1.09	1.09	1.09	1.07	1.05	1.21
¥ per \$	146.8	149.4	148.2	131.1	135.3	104.3
\$ per Bitcoin	38,797	37,858	37,751	16,579	16,930	19,056

Macroeconomic Data	Value	Date	Next Rel.
Fed Funds Target (Floor)	5.25%	12/01/23	12/13/23
Inflation (Core PCE Deflator)	3.5%	10/31/23	12/22/23
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)	5.2%	09/30/23	12/21/23
ISM Manufacturing PMI	46.7	11/30/23	01/03/24
Consumer Confidence	102.0	11/30/23	12/20/23

Data Sources:
Bloomberg, FactSet

Sector Total Returns for the Week Ending 12/01/23



YTD Sector Total Returns as of 12/01/23

