



Market Commentary

Weekly Recap:

Stocks and bonds were mixed last week, as the macro calendar built towards the highly anticipated monthly jobs report from the Bureau of Labor Statistics. With U3 unemployment dipping 20 basis points to 3.7%, the Sahm Rule (trailing 3m average U3 rising at least 50bp above the 12 month low) was not triggered, suggesting that the US economy remains in expansion mode. Highlights from the jobs report include:

- * Nonfarm payrolls = +199k (consensus = +185k; prior month = +150k)
- * U3 unemployment = 3.7% (consensus = 3.9%; prior month = 3.9%)
- * U6 underemployment = 7.0% (prior month = 7.2%)
- * Average hourly earnings rose 0.4% m/m and 4.0% y/y
- * Labor force participation rate rose 10bp to 62.8%, equaling post-pandemic highs

In fixed income, the yield curve inversion deepened, with short yields rising in the wake of the stronger-than-expected jobs report as market participants recalibrated their expectations regarding the timing and pace of a Fed rate cutting cycle. Meanwhile, long bond yields drifted lower over the course of the week only rose a few basis points on Friday. Corporate credit spreads were steady at tight levels.

Stocks were mixed, with most cyclical and defensives slightly lower while tech stocks benefitted from falling discount rates and renewed A/I enthusiasm thanks to the release of Gemini from Alphabet (Google). Energy stocks lagged again as oil prices fell by nearly \$3/barrel during the week. International stocks were mixed as well, with D/M finishing higher while E/M benchmarks were pulled lower by weakness in Chinese equities. China's economy is suffering from weakening demand, and is struggling to contain the fallout from turmoil in the property sector. The MSCI China index closed at YTD lows on Friday, and is off nearly 60% from the all time highs set in early 2021.

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 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 almost no chance of another 25bp rate hike, and that the Fed will begin cutting rates in mid-2024.

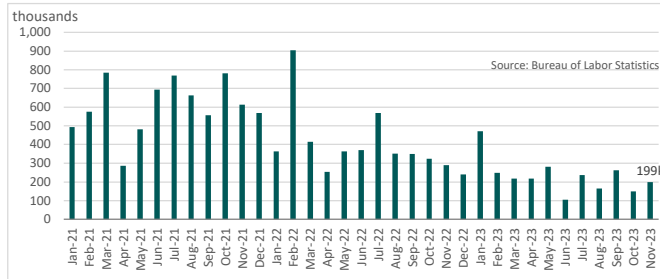
*Inflation - After reaching 40yr highs in spring of 2022, inflation has moderated significantly over the past 18 months. Goods inflation has fallen due to softening demand and supply chain normalization, while services inflation remains elevated, in part due to shelter costs which are somewhat lagged.

Albion's Dashboard of Key Leading Economic Indicators as of 10/08/23

●	Initial Jobless Claims (221k 4wk m/a) - Steady: run rate slightly above 200k per wk
●	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 (80.0% 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: Net Nonfarm Payrolls Added (m/m, seasonally adjusted)



Weekly Market Recap - 12/08/23

Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
S&P 500	4,604	0.2%	0.8%	21.8%	18.1%	30.4%
Dow Jones Indus. Avg.	36,248	0.0%	0.9%	11.7%	9.6%	27.7%
NASDAQ	14,404	0.7%	1.3%	38.7%	31.1%	17.2%
S&P Midcap 400	2,632	0.3%	2.7%	10.0%	7.3%	22.5%
Russell 2000 (Small Cap)	1,881	1.0%	4.0%	8.4%	5.1%	2.0%
MSCI EAFE (Int'l Dev Mkt Eq)	2,138	0.4%	0.7%	13.6%	12.6%	12.1%
MSCI EM (Emerging Mkt Eq)	975	-0.7%	-1.2%	4.8%	3.7%	-15.1%
MSCI World	3,047	0.2%	0.8%	18.9%	16.0%	20.8%
S&P Global 1200	3,347	0.0%	0.7%	18.5%	15.9%	22.2%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	4.23%	0.0%	0.9%	-0.1%	-2.5%	-19.3%
U.S. Bonds (Aggregate)	4.95%	0.1%	1.0%	2.7%	0.7%	-11.7%
Global Bonds	3.84%	0.3%	0.7%	2.2%	0.5%	-17.8%
U.S. Munis	3.46%	0.6%	0.7%	4.7%	4.1%	-2.4%
U.S. Investment Grade Corp	5.51%	0.2%	1.1%	5.2%	2.5%	-11.7%
U.S. High Yield Corporates	8.29%	0.4%	0.7%	10.1%	8.8%	3.9%

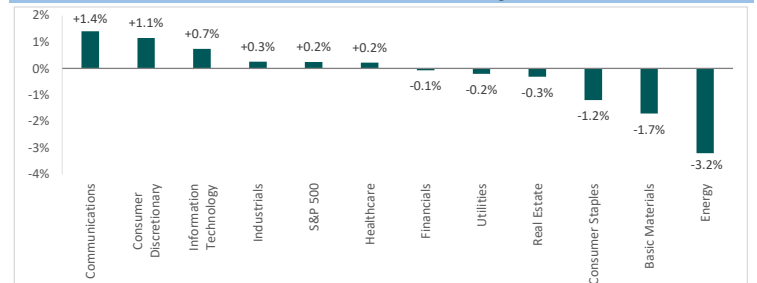
US Interest Rates	Levels (%)					
	12/8/23	12/1/23	11/30/23	12/30/22	12/8/22	12/8/20
2y Treasuries	4.72	4.54	4.68	4.43	4.31	0.15
10y Treasuries	4.23	4.20	4.33	3.87	3.48	0.92
30y Treasuries	4.30	4.39	4.49	3.96	3.43	1.66
Fed Funds (Effective Rate)	5.33	5.33	5.33	4.33	3.83	0.09
SOFR (USD)	5.32	5.39	5.33	4.30	3.80	0.07
30y Fixed Mortgage	6.80	7.07	7.07	6.41	6.28	2.71

Commodity Prices	Levels					
	12/8/23	12/1/23	11/30/23	12/30/22	12/8/22	12/8/20
Oil (WTI)	71.23	74.07	75.96	80.26	71.46	45.60
Gasoline	3.17	3.25	3.25	3.20	3.32	2.16
Natural Gas	2.58	2.81	2.80	4.48	5.96	2.40
Gold	2,005	2,072	2,036	1,824	1,789	1,871

Currency Crosses	Levels					
	12/8/23	12/1/23	11/30/23	12/30/22	12/8/22	12/8/20
\$ per £	1.25	1.27	1.26	1.21	1.22	1.34
\$ per €	1.08	1.09	1.09	1.07	1.06	1.21
¥ per \$	145.0	146.8	148.2	131.1	136.7	104.2
\$ per Bitcoin	44,555	38,797	37,751	16,579	17,184	18,774

Macroeconomic Data	Value	Date	Next Rel.	Data Sources:	
Fed Funds Target (Floor)	5.25%	12/08/23	12/13/23	Bloomberg, FactSet	
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)	3.7%	11/30/23	01/05/24		
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		

Sector Total Returns for the Week Ending 12/08/23



YTD Sector Total Returns as of 12/08/23

