



**ALBION
FINANCIAL
GROUP**

Wealth Advisors,
Investment Managers

Weekly Market Recap - 12/15/23

Market Commentary

Weekly Recap:

Asset prices surged last week after a surprisingly dovish FOMC meeting. The committee kept overnight interest rates unchanged, as expected, but the updated Summary of Economic Projections (SEP) showed a significant change in the Fed's thinking compared to the previous update in September. Gone was any notion of another 25bp rate hike, and more importantly, the SEP now implies that three 25bp rate cuts will take place in 2024. During the ensuing press conference, Fed Chair Jerome Powell confirmed that the committee has even begun discussing the potential timing of the first rate cut, suggesting that it may not be very far off.

The reaction of financial markets was swift and decisive. Fed funds futures markets immediately priced in a 25bp rate cut occurring at the March 2024 meeting, and raised the *total* amount of 25bp rate cuts in 2024 to six (markets to the Fed: "we'll see your 3 rate cuts, and raise you 3 more!"). Meanwhile, yields fell by ~30bp across the Treasury curve, pushing the 10-year back below 4% for the first time since July. And at the same time, credit spreads tightened on the increase in risk appetite, driving corporate bond prices sharply higher. The turnaround in the US IG Corporate index over the past ~2 months has been remarkable, with mildly negative YTD returns from mid-October turning into a +8% YTD return as of Friday's close.

Equity markets also reacted with enthusiasm, achieving broad-based gains that were most pronounced in sectors that have lagged this year, including cyclical and small caps. The Dow Jones Industrial Average finished the week at a fresh all-time high, as did the Nasdaq 100, while the S&P 500 is within 2% of its record high. Among major US large cap benchmarks, only the Nasdaq Composite (a broader index than the Nasdaq 100) remains some distance (~8%) from its former peak.

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 19.3x 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 that the Fed will cut rates significantly in 2024, beginning at the March meeting.

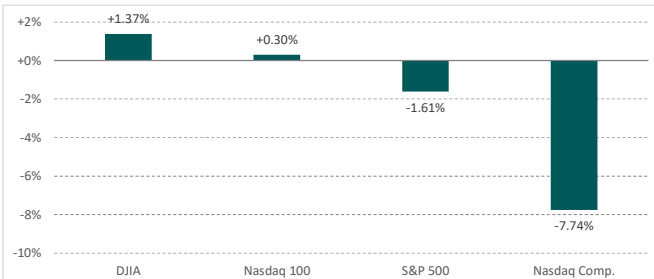
***Inflation** - After reaching 40yr highs in spring of 2022, inflation has moderated significantly over the past 18 months. Goods inflation has fallen due to softening demand and supply chain normalization, while services inflation remains elevated due to shelter costs and wage growth.

Albion's Dashboard of Key Leading Economic Indicators as of 12/15/23

● Initial Jobless Claims (213k 4wk m/a) - Steady: run rate slightly above 200k per week
● 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 (0.94%) - Stronger: rallied significantly in November/December
● Treasury Yield Curves (80.0% inv) - Steady: the curve remains almost fully inverted
● Consumer Confidence (102.0) - Mixed: strong summer, weak fall, modest November improvement
● 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 Large Cap Benchmarks Relative to 2021/2022 Highs



Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
S&P 500	4,719	2.5%	3.4%	24.9%	23.2%	33.9%
Dow Jones Indus. Avg.	37,305	2.9%	3.9%	15.0%	14.8%	31.3%
NASDAQ	14,814	2.9%	4.2%	42.7%	38.2%	20.4%
S&P Midcap 400	2,746	4.4%	7.2%	14.8%	14.4%	25.7%
Russell 2000 (Small Cap)	1,985	5.6%	9.8%	14.4%	13.7%	5.4%
MSCI EAFE (Int'l Dev Mkt Eq)	2,193	2.6%	3.2%	16.5%	15.5%	14.4%
MSCI EM (Emerging Mkt Eq)	1,001	2.7%	1.5%	7.6%	7.4%	-12.6%
MSCI World	3,126	2.6%	3.4%	22.0%	20.5%	23.9%
S&P Global 1200	3,430	2.5%	3.2%	21.5%	20.4%	25.1%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	3.91%	2.6%	3.6%	2.6%	-0.4%	-17.1%
U.S. Bonds (Aggregate)	4.63%	2.2%	3.2%	4.9%	2.4%	-9.9%
Global Bonds	3.60%	2.4%	3.1%	4.7%	3.0%	-16.0%
U.S. Munis	3.27%	1.1%	1.9%	5.9%	5.1%	-1.5%
U.S. Investment Grade Corp	5.15%	2.7%	3.8%	8.0%	5.1%	-9.3%
U.S. High Yield Corporates	7.80%	1.9%	2.6%	12.2%	10.2%	5.7%

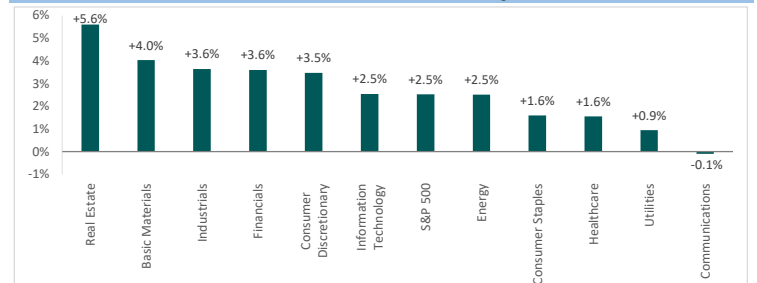
US Interest Rates	Levels (%)					
	12/15/23	12/8/23	11/30/23	12/30/22	12/15/22	12/15/20
2y Treasuries	4.44	4.72	4.68	4.43	4.24	0.11
10y Treasuries	3.91	4.23	4.33	3.87	3.45	0.91
30y Treasuries	4.01	4.30	4.49	3.96	3.49	1.65
Fed Funds (Effective Rate)	5.33	5.33	5.33	4.33	4.33	0.09
SOFR (USD)	5.32	5.32	5.33	4.30	4.32	0.09
30y Fixed Mortgage	6.82	6.80	7.07	6.41	6.17	2.71

Commodity Prices	Levels					
	12/15/23	12/8/23	11/30/23	12/30/22	12/15/22	12/15/20
Oil (WTI)	71.43	71.23	75.96	80.26	76.11	47.62
Gasoline	3.08	3.17	3.25	3.20	3.18	2.19
Natural Gas	2.49	2.58	2.80	4.48	6.97	2.68
Gold	2,020	2,005	2,036	1,824	1,777	1,854

Currency Crosses	Levels					
	12/15/23	12/8/23	11/30/23	12/30/22	12/15/22	12/15/20
\$ per £	1.27	1.25	1.26	1.21	1.22	1.35
\$ per €	1.09	1.08	1.09	1.07	1.06	1.22
¥ per \$	142.2	145.0	148.2	131.1	137.8	103.7
\$ per Bitcoin	42,241	44,555	37,751	16,579	17,400	19,424

Macroeconomic Data	Value	Date	Next Rel.	Data Sources:	
Fed Funds Target (Floor)	5.25%	12/15/23	01/31/24	Bloomberg, FactSet	
Inflation (Core PCE Deflator)	3.5%	10/31/23	12/22/23		
Inflation (Headline CPI)	3.1%	11/30/23	01/11/24		
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 12/15/23



YTD Sector Total Returns as of 12/15/23

