



**ALBION  
FINANCIAL  
GROUP**

Wealth Advisors,  
Investment Managers

## Market Commentary

### Weekly Recap:

After a banner 2023 across most major asset classes (equities, bonds, cash, and real estate), the first week of 2024 proved to be far less kind to investors. Stronger-than-expected labor market data put a damper on some of the enthusiasm around the idea of a March rate cut, which in turn had implications for bonds yields, discount rates, and stock prices.

On Thursday, ADP reported a net employment change of +164k payrolls, exceeding consensus estimates of +125k, suggesting that American businesses are still hiring new workers at a respectable pace. Meanwhile, weekly initial jobless claims for the final week of December fell to 202k, one of the lowest prints since January.

Then on Friday, the monthly jobs report from the BLS painted a similar picture:

\* December net nonfarm payrolls +216k (consensus +175k; prior month 173k)

\* U-3 Unemployment Rate 3.7% (consensus 3.8%; prior month 3.7%)

\* Average hourly earnings +4.1% y/y (consensus +3.9%; prior month +4.1%)

As a result, futures markets trimmed -30% from the odds of a March rate cut - what had been priced as a near certainty at the end of 2023 turned into a 70/30 proposition by Friday's close. The Treasury yield curve responded in kind, with rates backing up roughly 15 basis points in a mostly parallel shift higher.

Higher risk free rates were too much for equities to withstand, so stock prices went lower as well. Rate sensitive sectors were the hardest hit, including many of 2023's high flying technology and other growth stocks, as well as real estate. That said, many cyclical and defensive names were relatively resilient. As a result, the Dow registered a smaller decline than the S&P 500, which in turn held in better than the Nasdaq.

### Albion's "Four Pillars":

\*Economy & Earnings - The US economy was resilient last year, and Wall Street analysts expect full-year 2023 corporate earnings to be roughly flat y/y versus 2022. Analysts are forecasting approximately 10% EPS growth in 2024; growth of that magnitude will depend on the economy avoiding recession.

\*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 remained elevated in 2023 as the Fed continued fighting inflation. Futures markets imply that the Fed will cut rates significantly in 2024, beginning at the March meeting.

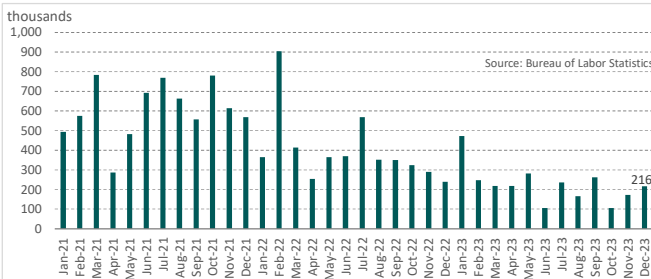
\*Inflation - After reaching 40yr highs in spring of 2022, inflation has moderated significantly over the past 18 months. Goods inflation has fallen due to softening demand and supply chain normalization, while services inflation remains elevated, in part due to shelter costs which are somewhat lagged.

### Albion's Dashboard of Key Leading Economic Indicators as of 01/05/24

●	Initial Jobless Claims (208k 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 (1,467k) - Stronger: gradual improvement after early 2023 trough
●	Corporate Bond Spreads (0.97%) - Stronger: rallied significantly in November/December
●	Treasury Yield Curves (77.8% inv) - Steady: the curve remains almost fully inverted
●	Consumer Confidence (110.7) - Stronger: rebounded in November/December
●	Real Final Sales (+2.8% y/y) - Stronger: consumer spending was robust in Q3 of 2023

Legend: ● = All Clear; ● = Caution; ● = Strong Warning

### Chart of the Week: Net Nonfarm Payrolls Added



## Weekly Market Recap - 01/05/24

### Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
S&P 500	4,697	-1.5%	-1.5%	-1.5%	25.4%	32.1%
Dow Jones Indus. Avg.	37,466	-0.6%	-0.6%	-0.6%	16.3%	31.0%
NASDAQ	14,524	-3.2%	-3.2%	-3.2%	42.1%	16.0%
S&P Midcap 400	2,713	-2.5%	-2.5%	-2.5%	13.6%	23.4%
Russell 2000 (Small Cap)	1,951	-3.7%	-3.7%	-3.7%	13.1%	2.6%
MSCI EAFE (Int'l Dev Mkt Eq)	2,208	-1.3%	-1.3%	-1.3%	16.3%	11.9%
MSCI EM (Emerging Mkt Eq)	1,002	-2.1%	-2.1%	-2.1%	4.9%	-17.1%
MSCI World	3,121	-1.5%	-1.5%	-1.5%	22.3%	21.8%
S&P Global 1200	3,426	-1.5%	-1.5%	-1.5%	21.6%	22.9%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	4.05%	-1.4%	-1.4%	-1.4%	0.7%	-17.6%
U.S. Bonds (Aggregate)	4.72%	-1.2%	-1.2%	-1.2%	3.5%	-10.4%
Global Bonds	3.65%	-1.4%	-1.4%	-1.4%	4.0%	-16.9%
U.S. Munis	3.28%	-0.3%	-0.3%	-0.3%	5.5%	-1.6%
U.S. Investment Grade Corp	5.28%	-1.5%	-1.5%	-1.5%	6.0%	-10.3%
U.S. High Yield Corporates	8.00%	-1.1%	-1.1%	-1.1%	10.9%	4.9%

US Interest Rates	Levels (%)				
	1/5/24	12/29/23	12/29/23	12/29/23	1/5/23
2y Treasuries	4.38	4.25	4.25	4.25	4.46
10y Treasuries	4.05	3.88	3.88	3.88	3.72
30y Treasuries	4.20	4.03	4.03	4.03	3.79
Fed Funds (Effective Rate)	5.33	5.33	5.33	5.33	4.33
SOFR (USD)	5.32	5.38	5.38	5.38	4.31
30y Fixed Mortgage	6.42	6.42	6.42	6.42	6.44

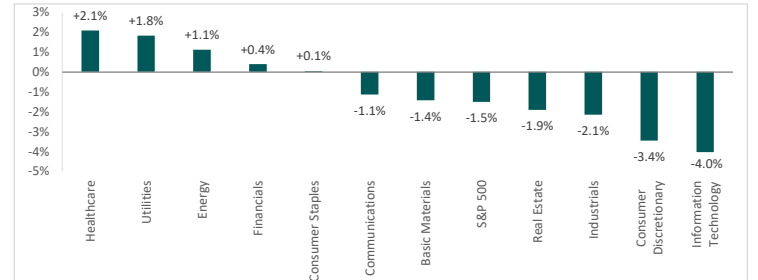
Commodity Prices	Levels				
	1/5/24	12/29/23	12/29/23	12/29/23	1/5/23
Oil (WTI)	73.81	71.65	71.65	71.65	73.67
Gasoline	3.08	3.12	3.12	3.12	3.29
Natural Gas	2.89	2.51	2.51	2.51	3.72
Gold	2,045	2,063	2,063	2,063	1,833

Currency Crosses	Levels				
	1/5/24	12/29/23	12/29/23	12/29/23	1/5/23
\$ per £	1.27	1.27	1.27	1.27	1.19
\$ per €	1.09	1.10	1.10	1.10	1.05
¥ per \$	144.6	141.0	141.0	141.0	133.4
\$ per Bitcoin	43,971	41,935	41,935	41,935	16,845

Macroeconomic Data	Value	Date	Next Rel.	
Fed Funds Target (Floor)	5.25%	01/05/24	01/31/24	
Inflation (Core PCE Deflator)	3.2%	11/30/23	01/26/24	
Inflation (Headline CPI)	3.1%	11/30/23	01/11/24	
Unemployment (U-3)	3.7%	12/31/23	02/02/24	
GDP Growth (Q/Q SAAR)	4.9%	09/30/23	01/25/24	
ISM Manufacturing PMI	47.4	12/31/23	02/01/24	
Consumer Confidence	110.7	12/31/23	01/30/24	

Data Sources:  
Bloomberg, FactSet

### Sector Total Returns for the Week Ending 01/05/24



### YTD Sector Total Returns as of 01/05/24

