



Market Commentary

Weekly Recap:

Rates moved lower and stocks rallied last week, despite a slightly higher-than-expected December CPI print that was released before the open on Thursday:

- * Headline CPI was +0.3% m/m (consensus = +0.2%; prior month = +0.1%)
- * Headline CPI was +3.4% y/y (consensus = +3.2%; prior month = +3.1%)
- * Core CPI was +0.3% m/m (consensus = +0.3%; prior month = +0.3%)
- * Core CPI was +3.9% y/y (consensus = +3.8%; prior month = +4.0%)

Friday's PPI (Producer Price Index) inflation print was a bit more favorable, with the headline index showing m/m deflation for the 3rd consecutive month and printing at just +1.0% y/y. The trend in PPI over the course of 2023 clearly confirms the anecdotal evidence provided by company management teams during earnings calls: input cost pressures, which led the move higher in CPI in 2021/22, have largely abated at this point and have helped pull CPI lower in the second half of 2023. See the Chart of the Week for a comparison of the y/y change in CPI and PPI over the past several years.

On the back of these inflation updates, investors pushed yields lower across the Treasury curve, particularly in the front end as the implied odds of a March rate cut rose by -10% on the week. Credit spreads rallied after wobbling a touch during the first week of 2024, resulting in strong returns for corporate bonds.

Finally, equities benefitted from falling rates and rising risk appetite. Rate-sensitive growth stocks were particularly strong, with most large cap tech names posting solid gains on the week, driving outperformance in the Nasdaq. Meanwhile the S&P 500 rose to within 13 points (-0.3%) of its all-time high set on the first trading day of 2022.

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.

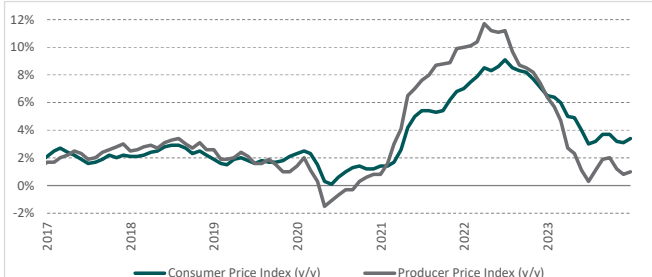
*Inflation - After reaching 40yr highs in spring of 2022, inflation has moderated significantly over the past 18 months. Goods inflation has fallen due to softening demand and supply chain normalization, while services inflation remains elevated, in part due to shelter costs which are somewhat lagged.

Albion's Dashboard of Key Leading Economic Indicators as of 01/12/24

● 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 (0.91%) - Steady: stable after rallying 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: CPI vs. PPI (y/y change)



Weekly Market Recap - 01/12/24

Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
S&P 500	4,784	1.9%	0.3%	0.3%	22.1%	31.9%
Dow Jones Indus. Avg.	37,593	0.4%	-0.2%	-0.2%	12.3%	28.6%
NASDAQ	14,973	3.1%	-0.2%	-0.2%	37.2%	17.2%
S&P Midcap 400	2,729	0.6%	-1.9%	-1.9%	8.1%	16.7%
Russell 2000 (Small Cap)	1,951	0.0%	-3.7%	-3.7%	5.6%	-4.6%
MSCI EAFE (Int'l Dev Mkt Eq)	2,227	0.9%	-0.4%	-0.4%	11.6%	11.4%
MSCI EM (Emerging Mkt Eq)	996	-0.6%	-2.6%	-2.6%	0.8%	-19.6%
MSCI World	3,165	1.5%	0.0%	0.0%	18.4%	21.4%
S&P Global 1200	3,473	1.5%	-0.1%	-0.1%	17.6%	22.1%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	3.94%	0.8%	-0.6%	-0.6%	-0.8%	-15.5%
U.S. Bonds (Aggregate)	4.55%	0.9%	-0.3%	-0.3%	2.1%	-8.9%
Global Bonds	3.57%	0.4%	-1.0%	-1.0%	1.5%	-15.7%
U.S. Munis	3.30%	0.1%	-0.2%	-0.2%	3.9%	-1.4%
U.S. Investment Grade Corp	5.07%	1.3%	-0.3%	-0.3%	4.3%	-8.3%
U.S. High Yield Corporates	7.71%	1.0%	-0.2%	-0.2%	9.2%	5.9%

US Interest Rates	Levels (%)					
	1/12/24	1/5/24	12/29/23	12/29/23	1/12/23	1/12/21
2y Treasuries	4.14	4.38	4.25	4.25	4.14	0.14
10y Treasuries	3.94	4.05	3.88	3.88	3.44	1.13
30y Treasuries	4.18	4.20	4.03	4.03	3.58	1.87
Fed Funds (Effective Rate)	5.33	5.33	5.33	5.33	4.33	0.09
SOFR (USD)	5.31	5.31	5.38	5.38	4.30	0.08
30y Fixed Mortgage	6.42	6.42	6.42	6.42	6.18	2.65

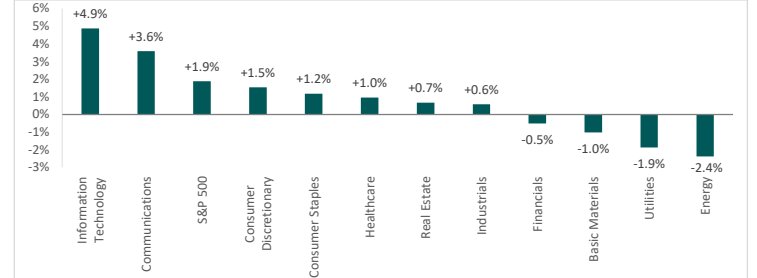
Commodity Prices	Levels					
	1/12/24	1/5/24	12/29/23	12/29/23	1/12/23	1/12/21
Oil (WTI)	72.68	73.81	71.65	71.65	78.39	53.21
Gasoline	3.07	3.08	3.12	3.12	3.29	2.35
Natural Gas	3.31	2.89	2.51	2.51	3.70	2.75
Gold	2,049	2,045	2,063	2,063	1,897	1,855

Currency Crosses	Levels					
	1/12/24	1/5/24	12/29/23	12/29/23	1/12/23	1/12/21
\$ per £	1.28	1.27	1.27	1.27	1.22	1.37
\$ per €	1.10	1.09	1.10	1.10	1.09	1.22
¥ per \$	144.9	144.6	141.0	141.0	129.3	103.8
\$ per Bitcoin	43,427	43,971	41,935	41,935	18,831	34,713

Macroeconomic Data	Value	Date	Next Rel.	
Fed Funds Target (Floor)	5.25%	01/12/24	01/31/24	
Inflation (Core PCE Deflator)	3.2%	11/30/23	01/26/24	
Inflation (Headline CPI)	3.4%	12/31/23	02/13/24	
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 01/12/24



YTD Sector Total Returns as of 01/12/24

