

Market Commentary

January 2024 Recap:

Inflation: Data released in January showed that as 2023 drew to a close, inflation was generally tame, but not quite tame enough for the Fed to declare victory. The Core PCE Deflator (the Fed's preferred inflation metric) stood at +2.9% y/y as of the end of December, the first sub-3% print since March of 2021. Meanwhile, Core CPI printed at +3.9% y/y, also the lowest since the first half of 2021. While these figures are directionally encouraging, the pace of disinflation has slowed in recent months, and both metrics remain solidly above the Fed's long term 2% target.

Monetary Policy: The main event for market participants in January was the FOMC meeting that concluded on Wednesday the 31st. While no one expected a change in overnight interest rates out of that meeting, everyone was interested in getting an answer to the question of "will they or won't they" begin cutting rates at the March meeting. The answer, delivered as clearly as can be given the constraints of Fed-speak, is no. Jerome Powell made it very clear that the committee does not anticipate that economic conditions will justify the start of a rate cutting cycle in March.

Economy: Outside of the manufacturing sector, which mostly remains in contraction, economic data released in January was solid. Consumer confidence continues to climb, thanks in part to falling inflation that everyone can see at the gas pump. Lower mortgage rates stimulated activity in the housing sector. And the labor market remains strong: jobless claims are low (~200k initial claims per week), open jobs are plentiful (9 million per the most recent JOLTS report), and job creation continues to chug along (216k nonfarm payrolls added in the most recent monthly BLS job report).

Bond Market: The yield curve steepened in January, with 2y yields falling slightly while yields in the belly and (especially) the long end rising a bit. Longer term yields continue to be challenged by the outlook for US budget deficits, making them somewhat more attuned to the election cycle (and especially growing populist impulses across the political spectrum) that will unfold over the course of 2024. Most bond prices finished the month lower, although a contraction in credit spreads (to levels that are nearing historic tightness) helped to cushion the downside in corporate bonds.

Stock Market: US large caps enjoyed a solid first month of 2024, but as was the case last year the gains were concentrated in a comparatively small number of individual stocks. Cyclical and defensives were much more of a mixed bag, resulting in underperformance of small and midcap benchmarks that have greater exposure to such industries. International markets were mixed as well, with emerging market indices especially weak due to sharp underperformance in Chinese equities.



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 20x 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** - Futures markets imply that the Fed will cut overnight interest rates several times in 2024, most like beginning mid-year. The belly and long end of the curve have already priced in a rate cutting cycle, with yields falling more than 100bp in the past few months.

***Inflation** - After reaching 40yr highs in mid-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 somewhat elevated, in part due to heavily lagged shelter costs.

January 2024 Market Recap

Market Data

| Equity Indices | Close | Index Total Returns (%) | | | |
|------------------------------|--------|-------------------------|-------|--------|---------|
| | | MTD | YTD | 1 Year | 3y Cum. |
| S&P 500 | 4,846 | 1.7% | 1.7% | 20.8% | 35.3% |
| Dow Jones Indus. Avg. | 38,150 | 1.3% | 1.3% | 14.4% | 32.6% |
| NASDAQ | 15,164 | 1.0% | 1.0% | 32.0% | 20.5% |
| S&P Midcap 400 | 2,732 | -1.7% | -1.7% | 4.8% | 24.1% |
| Russell 2000 (Small Cap) | 1,947 | -3.9% | -3.9% | 2.4% | 2.7% |
| MSCI EAFE (Int'l Dev Mkt Eq) | 2,248 | 0.6% | 0.6% | 10.6% | 14.9% |
| MSCI EM (Emerging Mkt Eq) | 976 | -4.6% | -4.6% | -2.5% | -17.5% |
| MSCI World | 3,205 | 1.2% | 1.2% | 17.0% | 24.9% |
| S&P Global 1200 | 3,510 | 0.9% | 0.9% | 16.2% | 25.9% |

| Fixed Income | Yield | Index Total Returns (%) | | | |
|----------------------------|-------|-------------------------|-------|--------|---------|
| | | MTD | YTD | 1 Year | 3y Cum. |
| 10y U.S. Treasuries | 3.91% | -0.3% | -0.3% | -0.2% | -17.0% |
| U.S. Bonds (Aggregate) | 4.59% | -0.3% | -0.3% | 2.1% | -9.9% |
| Global Bonds | 3.59% | -1.4% | -1.4% | 0.9% | -16.8% |
| U.S. Munis | 3.37% | -0.5% | -0.5% | 2.9% | -1.7% |
| U.S. Investment Grade Corp | 5.11% | -0.2% | -0.2% | 4.2% | -9.7% |
| U.S. High Yield Corporates | 7.80% | 0.0% | 0.0% | 9.3% | 6.1% |

| US Interest Rates | Levels (%) | | | | |
|----------------------------|------------|----------|----------|---------|----------|
| | 1/31/24 | 12/29/23 | 12/29/23 | 1/31/23 | 12/31/20 |
| 2y Treasuries | 4.21 | 4.25 | 4.25 | 4.20 | 0.12 |
| 10y Treasuries | 3.91 | 3.88 | 3.88 | 3.51 | 0.91 |
| 30y Treasuries | 4.17 | 4.03 | 4.03 | 3.63 | 1.64 |
| Fed Funds (Effective Rate) | 5.33 | 5.33 | 5.33 | 4.33 | 0.09 |
| SOFR (USD) | 5.32 | 5.38 | 5.38 | 4.31 | 0.07 |
| 30y Fixed Mortgage | 6.42 | 6.42 | 6.42 | 6.02 | 2.67 |

| Commodity Prices | Levels | | | | |
|------------------|---------|----------|----------|---------|----------|
| | 1/31/24 | 12/29/23 | 12/29/23 | 1/31/23 | 12/31/20 |
| Oil (WTI) | 75.85 | 71.65 | 71.65 | 78.87 | 48.52 |
| Gasoline | 3.15 | 3.12 | 3.12 | 3.50 | 2.25 |
| Natural Gas | 2.10 | 2.51 | 2.51 | 2.68 | 2.54 |
| Gold | 2,040 | 2,063 | 2,063 | 1,928 | 1,898 |

| Currency Crosses | Levels | | | | |
|------------------|---------|----------|----------|---------|----------|
| | 1/31/24 | 12/29/23 | 12/29/23 | 1/31/23 | 12/31/20 |
| \$ per £ | 1.27 | 1.27 | 1.27 | 1.23 | 1.37 |
| \$ per € | 1.08 | 1.10 | 1.10 | 1.09 | 1.22 |
| ¥ per \$ | 146.9 | 141.0 | 141.0 | 130.1 | 103.3 |
| \$ per Bitcoin | 42,458 | 41,935 | 41,935 | 22,951 | 28,996 |

| Macroeconomic Data | Value | Date |
|-------------------------------|-------|----------|
| Fed Funds Target (Lower) | 5.25% | 01/31/24 |
| Inflation (Core PCE Deflator) | 2.9% | 12/31/23 |
| Inflation (Headline CPI) | 3.4% | 12/31/23 |
| Unemployment (U-3) | 3.7% | 12/31/23 |
| GDP Growth (Q/Q SAAR) | 3.3% | 12/31/23 |
| ISM Manufacturing PMI | 47.4 | 12/31/23 |
| Consumer Confidence | 114.8 | 01/31/24 |

Data Sources:
Bloomberg, Factset

Albion's Dashboard of Key Leading Economic Indicators as of 01/31/24

- Initial Jobless Claims (203k 4wk m/a) - Steady: run rate slightly above 200k per week
- Conference Board LEI (-7.1% y/y) - Weaker: has declined significantly since peaking in Dec 2021
- Residential Building Permits (1,493k) - Stronger: gradual improvement after early 2023 trough
- Corporate Bond Spreads (0.90%) - Stronger: moved tighter in January as equities rallied
- Treasury Yield Curves (73.3% inv) - Stronger: modest flattening in anticipation of 2024 rate cuts
- Consumer Confidence (114.8) - Stronger: rebounded in November/December
- Real Final Sales (+3.4% y/y) - Stronger: consumer spending was robust in the 2nd half of 2023

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

January 2024 S&P 500 Total Return by Sector

