



Wealth Advisors,
Investment Managers

Weekly Market Recap - 02/02/24

Market Commentary

Weekly Recap:

Most stocks and bonds had a reasonably good week, despite disappointment (in some corners) regarding the prospects of a March rate cut.

The most important event of the week was unquestionably the January FOMC meeting, at which Fed Chair Jerome Powell made it very clear (within the constraints of Fed-speak) that the committee does not believe that economic conditions will justify a March cut. Several prominent Wall Street economists scrambled to update their forecasts (Goldman, BofA, and Barclays were all out the next morning with May as their new target), while Fed Funds Futures investors quickly repriced the odds of a March cut to a 4-to-1 long shot.

Otherwise, macro data released last week was strong, including:

- * Conference Board Consumer Confidence rose to 114.8, a 2+ year high
- * Manufacturing PMIs from ISM (49.1) and S&P (50.7) rose to 15m highs
- * JOLTS Job Openings rose back to 9 million
- * The BLS jobs report showed +353k NFPs, and 4.5% y/y wage growth

While the front end of the curve remains pinned, rates in the belly and long end finished the week lower, allowing most bonds to see solid price gains on the week. Credit spreads edged slightly wider, perhaps showing some fatigue after the strong rally in credit over the past 3 months.

Most equities were also better on the week. The energy sector was an exception, as oil prices fell markedly on reports of a cease-fire between Israel and Hamas.

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.

Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
S&P 500	4,959	1.4%	2.3%	4.1%	20.6%	35.8%
Dow Jones Indus. Avg.	38,654	1.4%	1.3%	2.6%	16.0%	33.9%
NASDAQ	15,629	1.1%	3.1%	4.1%	29.2%	17.5%
S&P Midcap 400	2,767	0.2%	1.3%	-0.4%	3.2%	19.9%
Russell 2000 (Small Cap)	1,963	-0.8%	0.8%	-3.1%	-0.4%	-5.0%
MSCI EAFE (Int'l Dev Mkt Eq)	2,223	0.0%	-1.1%	-0.5%	7.6%	13.1%
MSCI EM (Emerging Mkt Eq)	988	0.3%	1.3%	-3.4%	-2.6%	-22.0%
MSCI World	3,248	1.0%	1.3%	2.5%	15.9%	24.6%
S&P Global 1200	3,561	0.9%	1.5%	2.4%	15.6%	25.2%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	4.02%	1.0%	-0.7%	-1.0%	-1.5%	-16.2%
U.S. Bonds (Aggregate)	4.67%	0.6%	-0.4%	-0.7%	0.9%	-9.5%
Global Bonds	3.65%	0.4%	-0.6%	-2.0%	-1.0%	-16.2%
U.S. Munis	3.32%	0.9%	0.3%	-0.2%	2.9%	-2.0%
U.S. Investment Grade Corp	5.18%	0.6%	-0.3%	-0.5%	2.8%	-8.7%
U.S. High Yield Corporates	7.76%	0.1%	0.0%	0.0%	7.6%	5.5%

US Interest Rates	Levels (%)					
	2/2/24	1/26/24	1/31/24	12/29/23	2/2/23	2/2/21
2y Treasuries	4.36	4.35	4.21	4.25	4.10	0.11
10y Treasuries	4.02	4.14	3.91	3.88	3.39	1.10
30y Treasuries	4.22	4.37	4.17	4.03	3.54	1.87
Fed Funds (Effective Rate)	5.33	5.33	5.33	5.33	4.58	0.08
SOFR (USD)	5.32	5.32	5.32	5.38	4.56	0.07
30y Fixed Mortgage	7.06	6.99	6.96	6.99	6.32	2.84

Commodity Prices	Levels					
	2/2/24	1/26/24	1/31/24	12/29/23	2/2/23	2/2/21
Oil (WTI)	72.28	78.01	75.85	71.65	75.88	54.76
Gasoline	3.15	3.10	3.15	3.12	3.49	2.43
Natural Gas	2.08	2.71	2.10	2.51	2.46	2.85
Gold	2,040	2,019	2,040	2,063	1,913	1,838

Currency Crosses	Levels					
	2/2/24	1/26/24	1/31/24	12/29/23	2/2/23	2/2/21
\$ per E	1.26	1.27	1.27	1.27	1.22	1.37
\$ per €	1.08	1.09	1.08	1.10	1.09	1.20
¥ per \$	148.4	148.2	146.9	141.0	128.7	105.0
\$ per Bitcoin	42,979	41,994	42,458	41,935	23,460	35,688

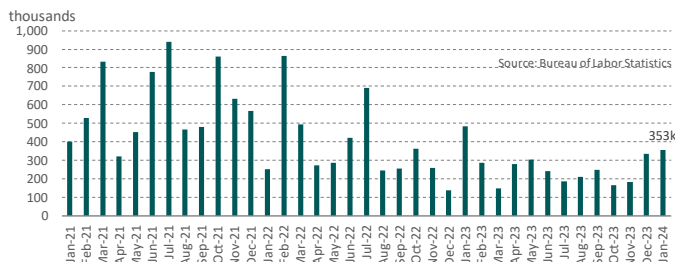
Macroeconomic Data	Value	Date	Next Rel.	Data Sources:	
				Bloomberg	FactSet
Fed Funds Target (Floor)	5.25%	02/02/24	03/20/24		
Inflation (Core PCE Deflator)	2.9%	12/31/23	02/29/24		
Inflation (Headline CPI)	3.4%	12/31/23	02/13/24		
Unemployment (U-3)	3.7%	01/31/24	03/08/24		
GDP Growth (Q/Q SAAR)	3.3%	12/31/23	02/28/24		
ISM Manufacturing PMI	49.1	01/31/24	03/01/24		
Consumer Confidence	114.8	01/31/24	02/27/24		

Albion's Dashboard of Key Leading Economic Indicators as of 02/02/24

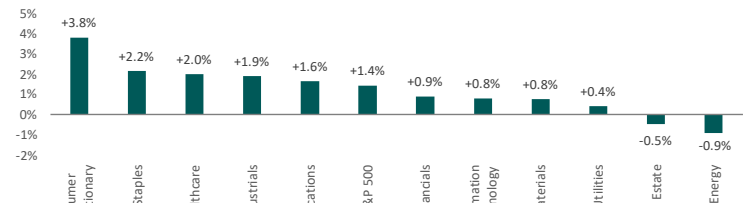
- Initial Jobless Claims (208k 4wk m/a) - Steady: run rate slightly above 200k per week
- Conference Board LEI (-7.1% y/y) - Weaker: has declined significantly since peaking in Dec 2021
- Residential Building Permits (1,493k) - Stronger: gradual improvement after early 2023 trough
- Corporate Bond Spreads (0.91%) - Steady: stable at tight levels after late 2023 / early 2024 rally
- Treasury Yield Curves (75.6% inv) - Steady: likely to remain inverted until rate cutting cycle occurs
- Consumer Confidence (114.8) - Stronger: rebounded in late 2023 / early 2024
- Real Final Sales (+3.4% y/y) - Stronger: consumer spending was robust in the 2nd half of 2023

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

Chart of the Week: Net US Nonfarm Payrolls Added



Sector Total Returns for the Week Ending 02/02/24



YTD Sector Total Returns as of 02/02/24

