



## Market Commentary

### Weekly Recap:

Stocks were better and bond yields rose in what was for the most part a slow week for macro data. The most consequential release was undoubtedly the ISM Services Index (53.4), which came in higher than expected across the board in January, particularly the Employment (50.5) and Price Paid (64.0) components. With services being the primary source of inflation in the US economy at this point, the strength in this print was notable and will certainly influence the Fed's thinking.

In financial media the headline was undoubtedly "S&P 5,000", as the S&P 500 closed above this tidy (but ultimately irrelevant) milestone for the first time ever on Friday. As was the case last year, the gains in the S&P have been very unevenly distributed so far in 2024. Once again, large cap technology stocks have driven a sizeable portion of the index's overall performance. While the market-cap weighted S&P 500 has thus far delivered a YTD total return of 5.5%, the equal-weighted version of the index has put up a return of just 0.8%.

Bond yields rose once again last week, as market participants continue to lower their assumptions about the quantity and timing of rate cuts in 2024. Relative to year-end levels, Treasury yields are now 20-35 basis points higher across the curve, with long bond yields feeling the brunt of the selling pressure. Credit spreads were stable last week and remain at tight levels relative to long run averages.

In commodity news, oil prices spiked at the end of the week after Israel rejected a cease-fire and hostage return offer from Hamas. However, natural gas prices are at multi-year lows, and gasoline prices at the pump have only edged a few cents higher in the US after falling significantly in Q4, to the benefit of consumer confidence.

### 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 November/December of 2023.

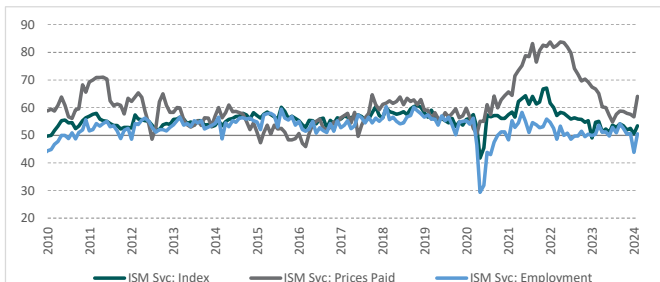
**\*Inflation** - After reaching 40yr highs in mid-2022, inflation has moderated significantly over the past 18 months. Goods inflation has fallen due to softening demand and supply chain normalization, while services inflation remains somewhat elevated, in part due to heavily lagged shelter costs.

### Albion's Dashboard of Key Leading Economic Indicators as of 02/09/24

- Initial Jobless Claims (212k 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%) - Steady: stable at tight levels after late 2023 / early 2024 rally
- Treasury Yield Curves (73.3% 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: ISM Services Index



## Weekly Market Recap - 02/09/24

### Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
S&P 500	5,027	1.4%	3.8%	5.5%	25.2%	34.7%
Dow Jones Indus. Avg.	38,672	0.1%	1.4%	2.7%	17.2%	31.0%
NASDAQ	15,991	2.3%	5.5%	6.6%	36.8%	16.8%
S&P Midcap 400	2,808	1.5%	2.8%	1.1%	8.5%	16.6%
Russell 2000 (Small Cap)	2,010	2.4%	3.3%	-0.8%	6.6%	-9.0%
MSCI EAFE (Int'l Dev Mkt Eq)	2,225	0.1%	-1.0%	-0.4%	8.8%	10.4%
MSCI EM (Emerging Mkt Eq)	996	0.8%	2.0%	-2.7%	0.1%	-22.9%
MSCI World	3,281	1.1%	2.4%	3.6%	19.5%	22.9%
S&P Global 1200	3,597	1.1%	2.5%	3.5%	19.1%	23.7%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	4.18%	-1.2%	-1.8%	-2.1%	-0.5%	-16.7%
U.S. Bonds (Aggregate)	4.81%	-0.8%	-1.2%	-1.5%	1.9%	-10.1%
Global Bonds	3.76%	-0.8%	-1.4%	-2.8%	0.3%	-17.0%
U.S. Munis	3.41%	-0.4%	-0.1%	-0.6%	3.1%	-2.7%
U.S. Investment Grade Corp	5.31%	-1.0%	-1.3%	-0.6%	4.0%	-9.5%
U.S. High Yield Corporates	7.75%	0.1%	0.2%	0.2%	9.4%	4.9%

US Interest Rates	Levels (%)				
	2/9/24	2/2/24	1/31/24	12/29/23	2/9/23
2y Treasuries	4.48	4.36	4.21	4.25	4.48
10y Treasuries	4.18	4.02	3.91	3.88	3.66
30y Treasuries	4.37	4.22	4.17	4.03	3.73
Fed Funds (Effective Rate)	5.33	5.33	5.33	5.33	4.57
SOFR (USD)	5.31	5.32	5.32	5.38	4.55
30y Fixed Mortgage	6.63	6.63	6.69	6.61	6.12

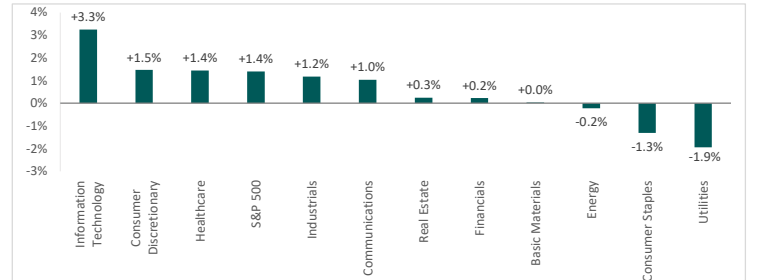
Commodity Prices	Levels				
	2/9/24	2/2/24	1/31/24	12/29/23	2/9/23
Oil (WTI)	76.84	72.28	75.85	71.65	78.06
Gasoline	3.18	3.15	3.15	3.12	3.43
Natural Gas	1.85	2.08	2.10	2.51	2.43
Gold	2,024	2,040	2,040	2,063	1,862

Currency Crosses	Levels				
	2/9/24	2/2/24	1/31/24	12/29/23	2/9/23
\$ per £	1.26	1.26	1.27	1.27	1.21
\$ per €	1.08	1.08	1.08	1.10	1.07
¥ per \$	149.3	148.4	146.9	141.0	131.6
\$ per Bitcoin	47,547	42,979	42,458	41,935	21,857

Macroeconomic Data	Value	Date	Next Rel.	
Fed Funds Target (Floor)	5.25%	02/09/24	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	

Data Sources:  
Bloomberg, FactSet

### Sector Total Returns for the Week Ending 02/09/24



### YTD Sector Total Returns as of 02/09/24

