

Market Commentary
April Recap:

Inflation: Data released in April continued to paint a picture of sticky inflation, with most metrics coming in slightly higher than consensus expectations. Core CPI is now +3.8% y/y based on the most recent print, while the Core PCE Deflator (the Fed's preferred inflation gauge) stands at +2.8% y/y, both of which are above the Fed's 2% inflation target. Moreover, real time inflation data suggests that core inflation (CPI and PCE) has been running at an annualized pace of around 4.5% so far in 2024.

Monetary Policy: There were no FOMC meetings in April (technically a meeting began on April 30, to conclude with a rate decision and press conference on May 1), and thus no changes to overnight interest rates. However, sticky inflation data caused market participants to further reassess the timing and magnitude of a rate cutting cycle. At the start of April, futures markets were pricing in 2 or 3 rate cuts in 2024, most likely beginning sometime over the summer. By month end, futures markets implied only one rate cut this year, occurring in either November or December.

Economy: Data released in April was mixed. The labor market remains strong: jobless claims are low (~200k initial claims per week), open jobs are plentiful (8.75 million per the most recent JOLTS report), job creation continues (303k nonfarm payrolls added), and unemployment is low (3.8%). There have been signs of a trough in US manufacturing, which has been in recession for nearly 2 years. However, consumer confidence has wanted in recent months thanks to sticky inflation, and higher mortgage rates appear to have stalled the upward momentum in housing sector activity. Q1 corporate earnings growth has been modest so far at +3.5% y/y, roughly in line with inflation meaning that real (inflation-adjusted) growth is close to flat.

Bond Market: Treasury yields moved higher over the course of April as market participants further recalibrated their expectations regarding the so-called "Fed pivot", resulting in lower bond prices across the board. Credit spreads remain tight by historical standards, pricing in very little default risk. Mortgage spreads tightened a bit further in April, driving a smaller increase in mortgage rates (+38bp on average for 30y fixed) compared to the move in 10y Treasury yields (+48bp).

Stock Market: After posting significant gains in Q1, most domestic and international stocks struggled in April. China was a notable exception, with the MSCI China Index posting a 6.4% gain on the month, pushing E/M benchmarks into positive territory. In the US, all sectors except Utilities finished in the red, with rate-sensitive sectors like Real Estate and Technology facing the most selling pressure.


Albion's "Four Pillars":

*Economy & Earnings - The US economy has been resilient despite the higher interest rate environment. Analysts are forecasting low double digit 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 once or possibly twice in 2024, most likely at some point in the 2nd half of the year. Rate cut expectations have been tempered recently due to sticky inflation prints.

*Inflation - After falling rapidly in late 2022 and all of 2023, inflation has become sticky in the 3-4% range in early 2024. Services inflation remains somewhat elevated, in part due to heavily lagged shelter costs. Rising oil prices driven by armed conflicts in Ukraine and the middle east are also a risk to the inflation outlook.

April 2024 Market Recap

Market Data

| Equity Indices | Close | Index Total Returns (%) | | | |
|------------------------------|--------|-------------------------|-------|--------|---------|
| | | MTD | YTD | 1 Year | 3y Cum. |
| S&P 500 | 5,036 | -4.1% | 6.0% | 22.7% | 41.1% |
| Dow Jones Indus. Avg. | 37,816 | -4.9% | 0.9% | 13.3% | 32.1% |
| NASDAQ | 15,658 | -4.4% | 4.5% | 29.1% | 24.6% |
| S&P Midcap 400 | 2,861 | -6.0% | 3.3% | 16.8% | 30.5% |
| Russell 2000 (Small Cap) | 1,974 | -7.0% | -2.2% | 13.3% | 4.4% |
| MSCI EAFE (Int'l Dev Mkt Eq) | 2,281 | -2.5% | 3.3% | 9.8% | 18.0% |
| MSCI EM (Emerging Mkt Eq) | 1,046 | 0.5% | 2.9% | 10.3% | -10.9% |
| MSCI World | 3,305 | -3.7% | 4.8% | 18.4% | 29.4% |
| S&P Global 1200 | 3,637 | -3.5% | 5.2% | 18.5% | 31.2% |

| Fixed Income | Yield | Index Total Returns (%) | | | |
|----------------------------|-------|-------------------------|-------|--------|---------|
| | | MTD | YTD | 1 Year | 3y Cum. |
| 10y U.S. Treasuries | 4.68% | -3.5% | -5.1% | -6.2% | -21.0% |
| U.S. Bonds (Aggregate) | 5.31% | -2.5% | -3.3% | -1.5% | -12.6% |
| Global Bonds | 4.06% | -2.5% | -4.6% | -2.5% | -19.5% |
| U.S. Munis | 3.77% | -1.2% | -1.6% | 2.1% | -2.8% |
| U.S. Investment Grade Corp | 5.73% | -2.5% | -2.9% | 1.0% | -12.2% |
| U.S. High Yield Corporates | 8.11% | -0.9% | 0.5% | 9.0% | 6.6% |

| US Interest Rates | Levels (%) | | | | |
|----------------------------|------------|---------|----------|---------|----------|
| | 4/30/24 | 3/29/24 | 12/29/23 | 4/28/23 | 12/31/20 |
| 2y Treasuries | 5.04 | 4.62 | 4.25 | 4.01 | 0.12 |
| 10y Treasuries | 4.68 | 4.20 | 3.88 | 3.42 | 0.91 |
| 30y Treasuries | 4.78 | 4.34 | 4.03 | 3.67 | 1.64 |
| Fed Funds (Effective Rate) | 5.33 | 5.33 | 5.33 | 4.83 | 0.09 |
| SOFR (USD) | 5.34 | 5.34 | 5.38 | 4.81 | 0.07 |
| 30y Fixed Mortgage | 7.17 | 6.79 | 6.61 | 6.43 | 2.67 |

| Commodity Prices | Levels | | | | |
|------------------|---------|---------|----------|---------|----------|
| | 4/30/24 | 3/29/24 | 12/29/23 | 4/28/23 | 12/31/20 |
| Oil (WTI) | 81.93 | 83.17 | 71.65 | 76.78 | 48.52 |
| Gasoline | 3.66 | 3.54 | 3.12 | 3.62 | 2.25 |
| Natural Gas | 1.99 | 1.76 | 2.51 | 2.41 | 2.54 |
| Gold | 2,286 | 2,230 | 2,063 | 1,990 | 1,898 |

| Currency Crosses | Levels | | | | |
|------------------|---------|---------|----------|---------|----------|
| | 4/30/24 | 3/29/24 | 12/29/23 | 4/28/23 | 12/31/20 |
| \$ per £ | 1.25 | 1.26 | 1.27 | 1.26 | 1.37 |
| \$ per € | 1.07 | 1.08 | 1.10 | 1.10 | 1.22 |
| ¥ per \$ | 157.8 | 151.4 | 141.0 | 136.3 | 103.3 |
| \$ per Bitcoin | 59,869 | 69,654 | 41,935 | 29,355 | 28,996 |

| Macroeconomic Data | Value | Date |
|-------------------------------|-------|----------|
| Fed Funds Target (Lower) | 5.25% | 04/30/24 |
| Inflation (Core PCE Deflator) | 2.8% | 03/31/24 |
| Inflation (Headline CPI) | 3.5% | 03/31/24 |
| Unemployment (U-3) | 3.8% | 03/31/24 |
| GDP Growth (Q/Q SAAR) | 1.6% | 03/31/24 |
| ISM Manufacturing PMI | 50.3 | 03/31/24 |
| Consumer Confidence | 97.0 | 04/30/24 |

 Data Sources:
Bloomberg, Factset

Albion's Dashboard of Key Leading Economic Indicators as of 04/30/24

- Initial Jobless Claims (213k 4wk m/a) - Steady: run rate slightly above 200k per week
- Conference Board LEI (-5.5% y/y) - Weaker: resumed 2+ year decline in March after a bounce in Feb
- Residential Building Permits (1,467k) - Steady: plateauing on higher mortgage rates after rising in 2023
- Corporate Bond Spreads (0.87%) - Steady: stable at tight levels after late 2023 / early 2024 rally
- Treasury Yield Curves (84.4% inv) - Steady: likely to remain inverted until rate cutting cycle occurs
- Consumer Confidence (97.0) - Weaker: has fallen for 3 straight months on sticky inflation
- Real Final Sales (+2.9% y/y) - Steady: consumer spending remained solid in Q1 2024

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

S&P 500 Total Return by Sector - April 2024
