



Wealth Advisors,  
Investment Managers

## Market Commentary

### Weekly Recap:

Unlike the first week of July, which was largely a continuation of the tech-dominated rally of the past -18 months, last week saw a broadening of the rally to include previously unloved sectors like cyclical, real estate, and small caps. Among large cap benchmarks the Dow was the best performer, but the real star was the Russell 2000 (small cap benchmark) which surged 6% on the week. That said, the Dow and the Russell both remain far behind the more tech-heavy S&P 500 and especially the Nasdaq on a YTD basis.

The primary catalyst was Thursday's lower-than-expected CPI print, which saw headline inflation drop 30 basis points sequentially to 3.0% y/y, while core inflation fell 10 basis points to 3.3%. The decline in Core CPI was largely driven by declining services inflation, rather than core goods which has already been in deflation for some time. Core services is the primary driver of inflation in the economy at this point, so seeing the moderating trend there is encouraging.

Earlier in the week, during his semi-annual 2-day testimony before Congress, Fed Chair Jerome Powell highlighted the fact that inflation is no longer the only risk on the committee's mind, as the gradual normalization of the labor market has led to three consecutive sequential increases in U-3 unemployment, to 4.1% as of the most recent print. Financial markets interpreted Powell's comments to mean that a September rate cut is in play, and the subsequent CPI print sent the implied odds of a September cut to nearly 100%. Rates fell across the curve as well, driving solid gains for fixed income investors on the week.

### 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 21x is well above the long run average, so valuations are likely to 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 from current levels over the coming decade are likely to be in the single digits.

**\*Interest Rates** - Futures markets imply that the Fed will cut overnight interest rates once or twice in the 2nd half of 2024, with additional cuts in 2025. Belly and long end rates are already at or near what are likely to be their post-pandemic equilibrium levels, unless the US economy enters a recession.

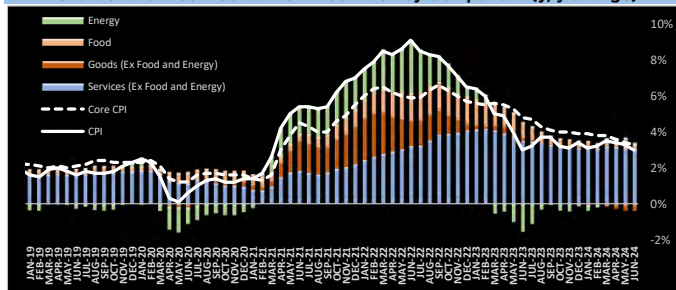
**\*Inflation** - After falling rapidly in late 2022 and all of 2023, inflation became sticky in the 3-4% range in the first half of 2024. Services inflation remains somewhat elevated, in part due to heavily lagged shelter costs. Volatile energy prices driven by geopolitical conflicts could present a risk to the inflation outlook.

### Albion's Dashboard of Key Leading Economic Indicators as of 07/12/24

- Initial Jobless Claims (234k 4wk m/a) - Weaker: claims have ticked higher in recent weeks
- Conference Board LEI (-5.3% y/y) - Weaker: nearly uninterrupted decline since Dec '21 peak
- Residential Building Permits (1,399k) - Weaker: activity slowing on persistently high mortgage rates
- Corporate Bond Spreads (0.89%) - Steady: stable after modest widening in May/June
- Treasury Yield Curves (73.3% inv) - Steady: likely to remain inverted until rate cutting cycle occurs
- Consumer Confidence (100.4) - Mixed: present situation strong, future expectations weak
- Real Final Sales (+2.8% y/y) - Steady: consumer spending remained solid in Q1 2024

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

### Chart of the Week: Consumer Price Index by Component (y/y change)



## Weekly Market Recap - 07/12/24

### Market Data

Equity Indices	Close	Index Total Returns (%)			
		1 Week	MTD	YTD	3y Cum.
S&P 500	5,615	0.9%	2.9%	18.6%	34.2%
Dow Jones Indus. Avg.	40,001	1.6%	2.3%	7.2%	21.5%
NASDAQ	18,398	0.3%	3.8%	23.0%	27.9%
S&P Midcap 400	3,021	4.3%	3.1%	9.5%	16.8%
Russell 2000 (Small Cap)	2,148	6.0%	4.9%	6.8%	-1.8%
MSCI EAFE (Int'l Dev Mkt Eq)	2,418	2.3%	4.5%	10.5%	14.0%
MSCI EM (Emerging Mkt Eq)	1,124	1.8%	3.8%	11.8%	-7.0%
MSCI World	3,628	1.3%	3.3%	15.5%	23.9%
S&P Global 1200	4,003	1.3%	3.4%	16.4%	26.4%

Fixed Income	Yield	Index Total Returns (%)			
		1 Week	MTD	YTD	3y Cum.
10y U.S. Treasuries	4.18%	0.9%	1.7%	-0.4%	-14.2%
U.S. Bonds (Aggregate)	4.75%	0.8%	1.5%	0.8%	-7.8%
Global Bonds	3.75%	1.1%	1.8%	-1.5%	-14.6%
U.S. Munis	3.62%	0.5%	0.6%	0.2%	-2.7%
U.S. Investment Grade Corp	5.22%	0.8%	1.8%	1.3%	-7.6%
U.S. High Yield Corporates	7.67%	0.8%	1.1%	3.7%	5.7%

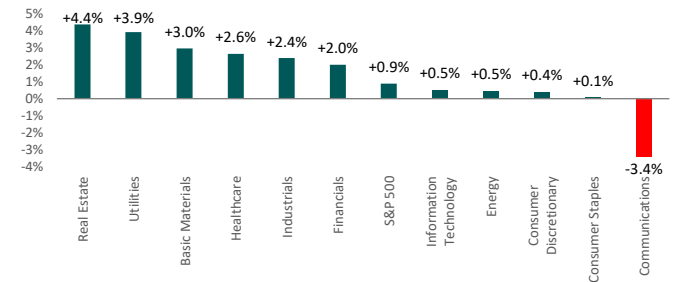
US Interest Rates	Levels (%)				
	7/12/24	7/5/24	6/28/24	12/29/23	7/12/21
2y Treasuries	4.45	4.60	4.75	4.25	0.23
10y Treasuries	4.18	4.28	4.40	3.88	1.36
30y Treasuries	4.40	4.48	4.56	4.03	2.00
Fed Funds (Effective Rate)	5.33	5.33	5.33	5.33	0.10
SOFR (USD)	5.34	5.32	5.33	5.38	0.05
30y Fixed Mortgage	6.89	6.95	6.86	6.61	2.90

Commodity Prices	Levels				
	7/12/24	7/5/24	6/28/24	12/29/23	7/12/21
Oil (WTI)	82.21	83.16	81.54	71.65	74.10
Gasoline	3.53	3.51	3.50	3.12	3.15
Natural Gas	2.33	2.32	2.60	2.51	3.75
Gold	2,411	2,392	2,327	2,063	1,806

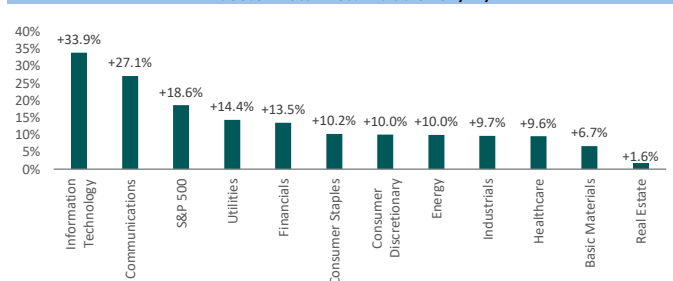
Currency Crosses	Levels				
	7/12/24	7/5/24	6/28/24	12/29/23	7/12/21
\$ per E	1.30	1.28	1.26	1.27	1.39
\$ per €	1.09	1.08	1.07	1.10	1.19
¥ per \$	157.8	160.8	160.9	141.0	110.4
\$ per Bitcoin	57,559	56,354	60,118	41,935	32,850

Macroeconomic Data	Value	Date	Next Rel.	Data Sources:
Fed Funds Target (Floor)	5.25%	07/12/24	07/31/24	
Inflation (Core PCE Deflator)	2.6%	05/31/24	07/26/24	
Inflation (Headline CPI)	3.0%	06/30/24	08/14/24	
Unemployment (U-3)	4.1%	06/30/24	08/02/24	
GDP Growth (Q/Q SAAR)	1.4%	03/31/24	07/25/24	
ISM Manufacturing PMI	48.5	06/30/24	08/01/24	
Consumer Confidence	100.4	06/30/24	07/30/24	

### Sector Total Returns for the Week Ending 07/12/24



### YTD Sector Total Returns as of 07/12/24



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