



Wealth Advisors,
Investment Managers

Weekly Market Recap - 07/19/24

Market Commentary

Weekly Recap:

A sharp sector rotation trade played out across US equity markets for a second consecutive week, with high flying tech stocks coming under selling pressure while previously unloved areas of the market found a bid. Cyclical, real estate, and small caps were areas of relative strength. The Dow was the winner among US large cap benchmarks, while the Nasdaq was down more than 3% and is now slightly in the red for the month of July. Meanwhile, international equity markets had a challenging week, and remain well behind the US on a YTD basis.

Bond yields moved higher by 5-6 basis points across most of the Treasury curve, pivoting midweek after a fairly strong bond rally that had seen yields fall by -25 basis points over the previous 2+ weeks.

Macro was a mixed bag last week. Import/export prices continue to suggest that international trade is not a significant source of inflation at this point. On the positive side, retail sales in June were better than expected, and housing activity rebounded slightly, with permits and starts both up 3%+ sequentially. On a more challenging note, jobless claims ticked higher once again as the labor market continues to normalize, and the Conference Board's Leading Economic Index (LEI) fell another 0.2% m/m. The LEI is now 14.8% off of its peak from the end of 2021, and in the past, declines of this magnitude have always been followed by a US recession. See the Chart of the Week for a time series.

Lastly, despite causing significant disruption in many industries, it does not appear that Friday's global CrowdStrike outage had any meaningful effect on *most* financial asset prices (CRWD is a notable exception, of course).

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.

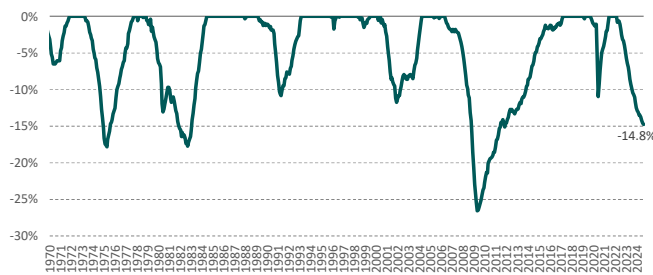
***Inflation** - After falling rapidly in late 2022 and all of 2023, inflation became sticky in the -3% range in the first half of 2024. Services inflation remains somewhat elevated, in part due to heavily lagged shelter costs. Volatile energy prices driven by geopolitical conflicts could present a risk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

Albion's Dashboard of Key Leading Economic Indicators as of 07/19/24

- Initial Jobless Claims (235k 4wk m/a) - Weaker: claims have ticked higher in recent weeks
- Conference Board LEI (-4.8% y/y) - Weaker: nearly uninterrupted decline since Dec '21 peak
- Residential Building Permits (1,446k) - Mixed: activity curtailed by persistently high mortgage rates
- Corporate Bond Spreads (0.91%) - 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: Conference Board LEI - Decline from Peak (%)



Market Data

Equity Indices	Close	Index Total Returns (%)			
		1 Week	MTD	YTD	3y Cum.
S&P 500	5,505	-1.9%	0.9%	16.3%	35.5%
Dow Jones Indus. Avg.	40,288	0.7%	3.1%	8.0%	26.1%
NASDAQ	17,727	-3.6%	0.0%	18.5%	27.2%
S&P Midcap 400	3,015	-0.2%	3.0%	9.3%	23.1%
Russell 2000 (Small Cap)	2,184	1.7%	6.7%	8.6%	7.0%
MSCI EAFE (Int'l Dev Mkt Eq)	2,361	-2.4%	2.0%	7.9%	15.0%
MSCI EM (Emerging Mkt Eq)	1,090	-3.0%	0.8%	8.5%	-9.2%
MSCI World	3,554	-2.0%	1.2%	13.1%	25.2%
S&P Global 1200	3,914	-2.2%	1.2%	13.8%	27.3%

Fixed Income	Yield	Index Total Returns (%)			
		1 Week	MTD	YTD	3y Cum.
10y U.S. Treasuries	4.24%	-0.4%	1.3%	-0.8%	-15.9%
U.S. Bonds (Aggregate)	4.81%	-0.3%	1.2%	0.5%	-8.8%
Global Bonds	3.77%	-0.2%	1.6%	-1.6%	-15.0%
U.S. Munis	3.60%	0.2%	0.7%	0.3%	-2.7%
U.S. Investment Grade Corp	5.30%	-0.4%	1.3%	0.9%	-8.8%
U.S. High Yield Corporates	7.67%	0.3%	1.4%	4.0%	6.7%

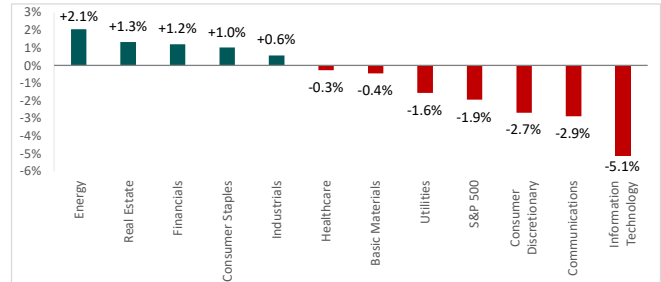
US Interest Rates	Levels (%)				
	7/19/24	7/12/24	6/28/24	12/29/23	7/19/21
2y Treasuries	4.51	4.45	4.75	4.25	0.22
10y Treasuries	4.24	4.18	4.40	3.88	1.19
30y Treasuries	4.45	4.40	4.56	4.03	1.82
Fed Funds (Effective Rate)	5.33	5.33	5.33	5.33	0.10
SOFR (USD)	5.34	5.34	5.33	5.38	0.05
30y Fixed Mortgage	6.77	6.89	6.86	6.61	2.88

Commodity Prices	Levels				
	7/19/24	7/12/24	6/28/24	12/29/23	7/19/21
Oil (WTI)	80.13	82.21	81.54	71.65	66.42
Gasoline	3.50	3.53	3.50	3.12	3.17
Natural Gas	2.13	2.33	2.60	2.51	3.78
Gold	2,401	2,411	2,327	2,063	1,813

Currency Crosses	Levels				
	7/19/24	7/12/24	6/28/24	12/29/23	7/19/21
\$ per £	1.29	1.30	1.26	1.27	1.37
\$ per €	1.09	1.09	1.07	1.10	1.18
¥ per \$	157.5	157.8	160.9	141.0	109.5
\$ per Bitcoin	66,986	57,559	60,118	41,935	30,776

Macroeconomic Data	Value	Date	Next Rel.	Data Sources:
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 07/19/24



YTD Sector Total Returns as of 07/19/24

