

Market Commentary
Weekly Recap:

The sector rotation trade gained momentum last week, as large cap tech significantly underperformed while most other parts of the US equity market rallied. Cyclical and defensives were almost universally higher, with energy stocks the lone exception thanks to sagging oil prices driven by soft demand from China. Small caps massively outperformed once again, with the Russell 2000 climbing 3.5% on the week to reach 10+% so far in July. International markets finished lower, particularly E/M thanks to weakness in Chinese stocks.

In fixed income, rates moved lower across most of the curve, particularly in the front end as monthly PCE data reinforced the disinflation narrative. Dovish comments from former FOMC member Bill Dudley, who surprisingly called for a July rate cut to stave off a possible recession, also helped push short rates lower. While futures markets continue to price almost no chance of a cut from the FOMC at the end of July, the implied odds of a September cut are now virtually 100%.

Macro data released last week was consistent with recent trends. The first estimate of Q2 US GDP growth came in at +2.8% (q/q annualized), with better-than-expected personal consumption (along with some inventory build) as strong income growth continues to support consumer spending. Home sales (new & existing) remain weak due to persistently high mortgage rates. The preliminary reading of S&P's PMIs for July saw manufacturing (49.5) slip back into contraction, while services (56.0) exceeded consensus and kept the composite (55.0) in expansion territory. And finally, Core PCE (the Fed's preferred inflation gauge) was +0.2% m/m in June and +2.6% y/y, a relief to market participants who are wary of any reacceleration in inflation ahead of the September FOMC meeting.

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.

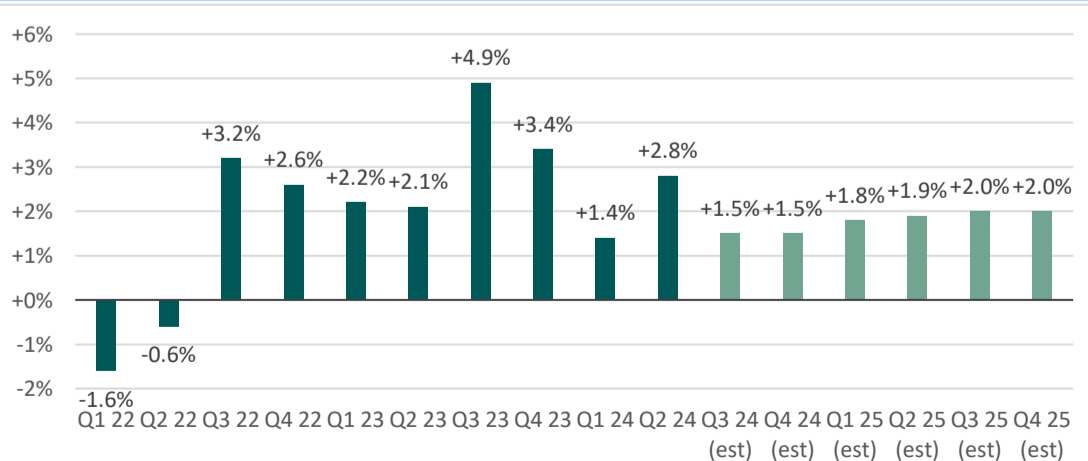
*Interest Rates - Futures markets imply that the Fed will cut overnight interest rates once or twice in the 2nd half of 2024, with additional cuts in 2025. Belly and long end rates have already priced in a rate cutting cycle and are likely near their post-pandemic equilibrium levels, unless the US economy 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 07/26/24

- Initial Jobless Claims (236k 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 (0.93%) - 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: US GDP Growth with Consensus Fwd Estimates (q/q, ann.)

Weekly Market Recap - 07/26/24
Market Data

Equity Indices	Close	Index Total Returns (%)			
		1 Week	MTD	YTD	3y Cum.
S&P 500	5,459	-0.8%	0.0%	15.3%	29.4%
Dow Jones Indus. Avg.	40,589	0.8%	3.9%	8.8%	22.8%
NASDAQ	17,358	-2.1%	-2.1%	16.1%	19.8%
S&P Midcap 400	3,075	2.0%	5.0%	11.5%	20.6%
Russell 2000 (Small Cap)	2,260	3.5%	10.4%	12.3%	6.4%
MSCI EAFE (Int'l Dev Mkt Eq)	2,338	-0.9%	1.0%	6.9%	11.1%
MSCI EM (Emerging Mkt Eq)	1,072	-1.6%	-0.8%	6.8%	-8.1%
MSCI World	3,524	-0.8%	0.4%	12.2%	19.9%
S&P Global 1200	3,877	-0.9%	0.2%	12.8%	22.4%

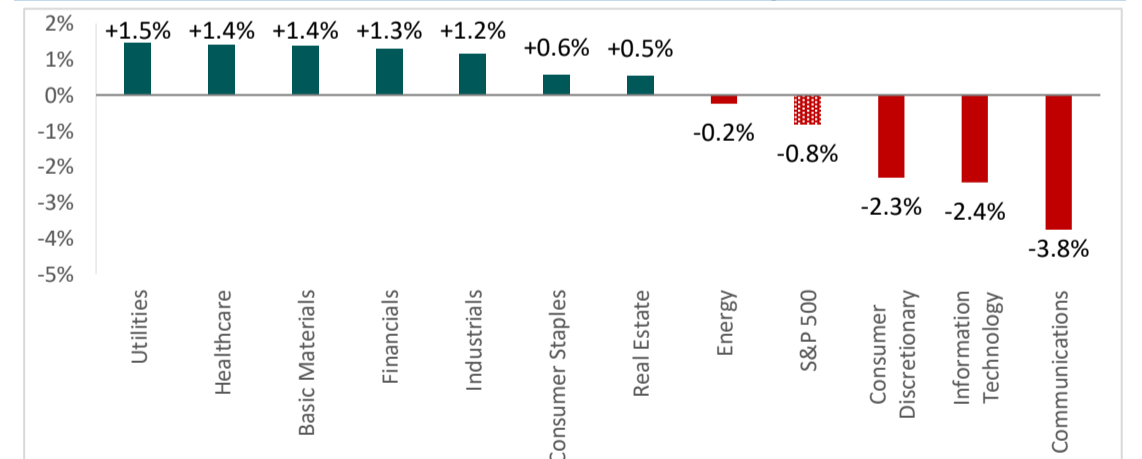
Fixed Income	Yield	Index Total Returns (%)			
		1 Week	MTD	YTD	3y Cum.
10y U.S. Treasuries	4.19%	0.4%	1.7%	-0.4%	-14.8%
U.S. Bonds (Aggregate)	4.77%	0.3%	1.5%	0.8%	-8.2%
Global Bonds	3.72%	0.3%	1.9%	-1.3%	-14.7%
U.S. Munis	3.59%	0.1%	0.8%	0.4%	-2.6%
U.S. Investment Grade Corp	5.26%	0.2%	1.5%	1.0%	-8.3%
U.S. High Yield Corporates	7.63%	0.3%	1.7%	4.3%	6.4%

US Interest Rates	Levels (%)				
	7/26/24	7/19/24	6/28/24	12/29/23	7/26/21
2y Treasuries	4.38	4.51	4.75	4.25	0.19
10y Treasuries	4.19	4.24	4.40	3.88	1.29
30y Treasuries	4.45	4.45	4.56	4.03	1.94
Fed Funds (Effective Rate)	5.33	5.33	5.33	5.33	0.10
SOFR (USD)	5.35	5.34	5.33	5.38	0.05
30y Fixed Mortgage	6.78	6.77	6.86	6.61	2.78

Commodity Prices	Levels				
	7/26/24	7/19/24	6/28/24	12/29/23	7/26/21
Oil (WTI)	77.16	80.13	81.54	71.65	71.91
Gasoline	3.51	3.50	3.50	3.12	3.16
Natural Gas	2.01	2.13	2.60	2.51	4.10
Gold	2,387	2,401	2,327	2,063	1,798

Currency Crosses	Levels				
	7/26/24	7/19/24	6/28/24	12/29/23	7/26/21
\$ per £	1.29	1.29	1.26	1.27	1.38
\$ per €	1.09	1.09	1.07	1.10	1.18
¥ per \$	153.8	157.5	160.9	141.0	110.4
\$ per Bitcoin	67,449	66,986	60,118	41,935	37,752

Macroeconomic Data	Value	Date	Next Rel.	Data Sources:	
Fed Funds Target (Floor)	5.25%	07/26/24	07/31/24	Bloomberg	FactSet
Inflation (Core PCE Deflator)	2.6%	06/30/24	08/30/24		
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)	2.8%	06/30/24	08/29/24		
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 07/26/24

YTD Sector Total Returns as of 07/26/24
