



Wealth Advisors,
Investment Managers

Weekly Market Recap - 08/02/24

Market Commentary

Weekly Recap:

Weak labor market data on Thursday and Friday of last week heightened fears regarding the condition of the US economy, turning what had been a rotation trade into a fear trade. Equities of all stripes were down sharply as VIX spiked to its highest level in more than a year. Defensive sectors like utilities, staples, and real estate outperformed on the week, while most growth and cyclical companies were lower. Small caps reversed course on their recent outperformance and shed nearly 7% on the week, significantly underperforming large caps.

With some market participants suddenly clamoring for an emergency rate cut, Treasury yields fell sharply as bond prices rose. 2y yields dropped 50bp on the week, 10y yields finished 40bp lower, and Fed funds futures markets finished Friday's session with 4 to 5 rate cuts priced in by year-end. Credit spreads leaked wider by about 10 basis points, a comparatively modest amount that could be a precursor of more widening to come.

The data driving the equity selloff largely came from the labor market, although a weaker-than-expected ISM Manufacturing print also contributed, coming in at 46.8 for July. On the labor front, initial jobless claims (a leading indicator of labor market stress) rose to 249k, the highest figure in nearly a year. Then on Friday, nonfarm payrolls fell to +114k in July from a downwardly revised +179k in June, missing consensus by a wide margin. Perhaps most importantly, U-3 unemployment rose 20 basis points to 4.3%, officially triggering the "Sahm Rule" (trailing 3m avg U3 more than 50bp greater than trailing 12m low U3) which in the past has proven to be a very reliable *real-time* marker for the actual start of a US recession (recession dates are officially determined after the fact by NBER).

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.

Market Data

Equity Indices	Close	Index Total Returns (%)			
		1 Week	MTD	YTD	3y Cum.
S&P 500	5,347	-2.0%	-3.2%	13.0%	27.7%
Dow Jones Indus. Avg.	39,737	-2.1%	-2.7%	6.6%	21.3%
NASDAQ	16,776	-3.3%	-4.7%	12.2%	17.0%
S&P Midcap 400	2,948	-4.1%	-4.8%	6.9%	14.9%
Russell 2000 (Small Cap)	2,109	-6.7%	-6.4%	4.9%	-0.7%
MSCI EAFE (Int'l Dev Mkt Eq)	2,291	-2.0%	-3.8%	4.8%	7.5%
MSCI EM (Emerging Mkt Eq)	1,061	-1.0%	-2.2%	5.7%	-10.0%
MSCI World	3,449	-2.1%	-3.4%	9.8%	17.5%
S&P Global 1200	3,798	-2.0%	-3.4%	10.5%	20.0%

Fixed Income	Yield	Index Total Returns (%)			
		1 Week	MTD	YTD	3y Cum.
10y U.S. Treasuries	3.79%	3.3%	2.1%	2.9%	-12.9%
U.S. Bonds (Aggregate)	4.35%	2.4%	1.6%	3.2%	-6.5%
Global Bonds	3.44%	2.3%	1.5%	1.0%	-13.4%
U.S. Munis	3.42%	1.0%	1.0%	1.5%	-1.7%
U.S. Investment Grade Corp	4.94%	2.1%	1.2%	3.1%	-7.1%
U.S. High Yield Corporates	7.70%	-0.1%	-0.3%	4.3%	6.3%

US Interest Rates	Levels (%)				
	8/2/24	7/26/24	7/31/24	12/29/23	8/2/21
2y Treasuries	3.88	4.38	4.26	4.25	0.17
10y Treasuries	3.79	4.19	4.03	3.88	1.18
30y Treasuries	4.11	4.45	4.30	4.03	1.85
Fed Funds (Effective Rate)	5.33	5.33	5.33	5.33	0.10
SOFR (USD)	5.35	5.35	5.38	5.38	0.05
30y Fixed Mortgage	6.73	6.78	6.78	6.61	2.80

Commodity Prices	Levels				
	8/2/24	7/26/24	7/31/24	12/29/23	8/2/21
Oil (WTI)	73.52	77.16	77.91	71.65	71.26
Gasoline	3.48	3.51	3.48	3.12	3.18
Natural Gas	1.97	2.01	2.04	2.51	3.94
Gold	2,443	2,387	2,448	2,063	1,813

Currency Crosses	Levels				
	8/2/24	7/26/24	7/31/24	12/29/23	8/2/21
\$ per £	1.28	1.29	1.29	1.27	1.39
\$ per €	1.09	1.09	1.08	1.10	1.19
¥ per \$	146.5	153.8	150.0	141.0	109.3
\$ per Bitcoin	62,552	67,449	64,560	41,935	38,857

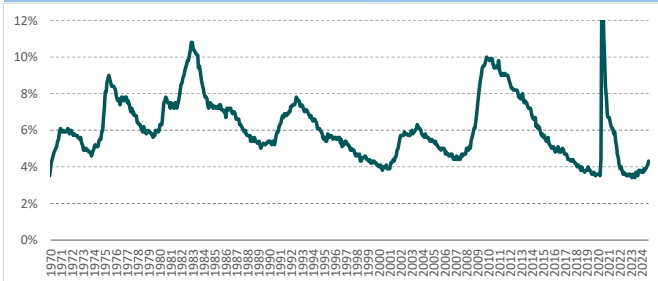
Macroeconomic Data	Value	Date	Next Rel.	Data Sources:	
Fed Funds Target (Floor)	5.25%	08/02/24	09/18/24		
Inflation (Core PCE Deflator)	2.6%	06/30/24	08/30/24		
Inflation (Headline CPI)	3.0%	06/30/24	08/14/24		
Unemployment (U-3)	4.3%	07/31/24	09/06/24		
GDP Growth (Q/Q SAAR)	2.8%	06/30/24	08/29/24		
ISM Manufacturing PMI	46.8	07/31/24	09/03/24		
Consumer Confidence	100.3	07/31/24	08/27/24	Bloomberg	FactSet

Albion's Dashboard of Key Leading Economic Indicators as of 08/02/24

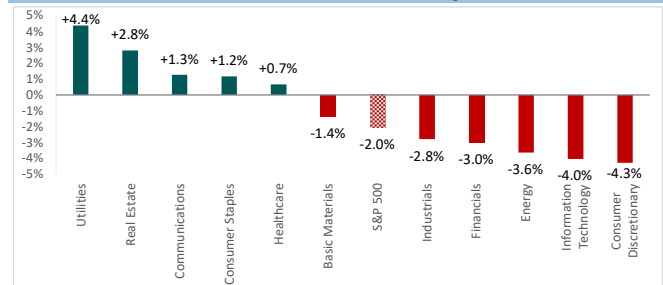
- Initial Jobless Claims (238k 4wk m/a) - Weaker: claims have ticked higher in recent weeks
- Conference Board LEI (-4.8% y/y) - Weaker: nearly uninterrupted decline since Dec '21 peak
- Residential Building Permits (1,446k) - Mixed: activity curtailed by persistently high mortgage rates
- Corporate Bond Spreads (1.05%) - Weaker: widening on recession concerns after weak July labor data
- Treasury Yield Curves (68.9% inv) - Steady: likely to remain inverted until rate cutting cycle occurs
- Consumer Confidence (100.3) - 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

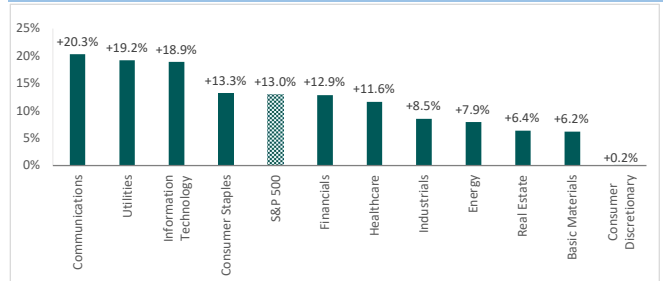
Chart of the Week: US Unemployment Rate (U-3)



Sector Total Returns for the Week Ending 08/02/24



YTD Sector Total Returns as of 08/02/24



Albion Financial Group is an SEC registered investment advisor. The information provided is intended solely for educational purposes and should not be construed as an offer or solicitation for the purchase or sale of any particular securities product, service, or investment strategy. Past performance is not indicative of future performance. Additional information about Albion Financial Group is also available on the SEC's website at www.adviserinfo.sec.gov under CRD number 105957. Albion Financial Group only transacts business in states where it is properly registered, notice filed or excluded or exempted from registration or notice filing requirements.