



Wealth Advisors,
Investment Managers

Weekly Market Recap - 10/25/24

Market Commentary

Weekly Recap:

Rising rates, and rising rate *volatility*, took a bite out of most equities last week. The tech sector was an exception and finished modestly higher, and Tesla (consumer discretionary) posted large gains after an upbeat Q3 earnings call that featured strong (if somewhat vague) growth projections from Elon Musk, allowing the Nasdaq to post a small gain on the week. Otherwise, domestic and foreign equity benchmarks were almost universally lower, with pronounced weakness in small caps and cyclicals.

Rates across most of the curve extended their march higher last week, a trend that has been in place ever since the 50bp cut to *overnight* interest rates at the September FOMC meeting. The ICE BofA MOVE Index (a measure of volatility in interest rates) rose 5 points on the week to finish at 128.4, near the top end of the 2024 trading range and nearly 40% higher from levels in the first few days post-FOMC. With bond yields moving higher, YTD returns for taxable investment grade fixed income have fallen by 2-3% so far in October.

Macro data released last week painted a familiar picture, including:

- * Weakness in manufacturing: S&P US Manufacturing PMI = 47.8 (contraction)
- * Strength in services: S&P US Services PMI = 55.3 (expansion)
- * Misleading indicators: Conference Board LEI = -0.5% m/m; -4.8% y/y; -15.9% P-T
- * Limited housing supply: Existing Home Sales = 3.84mn SAAR (near 25y low)
- * Resilient labor market: Initial Jobless Claims = 227k (down 15k w/w)
- * Well anchored inflation expectations: U of Mich 1y = +2.7%; 5-10y = +3.0%

Albion's "Four Pillars":

*Economy & Earnings - The US economy has been resilient despite the higher interest rate environment. S&P 500 earnings are on track for high single-digit or low double-digit y/y growth in 2024, provided that the economy continues to expand.

*Valuation - The S&P 500's forward P/E of 22x 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 mid single digits.

*Interest Rates - Futures markets imply that the Fed will deliver 25 bp interest rate cuts in each of the last two FOMC meetings of 2024, with additional cuts in 2025. Belly and long end rates are already near what are likely to be their post-pandemic equilibrium levels, unless the US economy enters a recession.

*Inflation - After becoming sticky in the 3-4% range in the first half of 2024, more recent data has reinforced the disinflationary trend, and the Fed has expressed confidence in the path to its 2% target. Services inflation remains somewhat elevated, in part due to heavily lagged shelter costs.

Albion's Dashboard of Key Leading Economic Indicators as of 10/25/24

- Initial Jobless Claims (239k 4wk m/a) - Mixed: storm-driven uptick in October
- Conference Board LEI (-4.8% y/y) - Weaker: nearly uninterrupted decline since Dec '21 peak
- Residential Building Permits (1,428k) - Mixed: activity curtailed by persistently high mortgage rates
- Corporate Bond Spreads (0.82%) - Stronger: near all time tight levels
- Treasury Yield Curves (53.3% inv) - Stronger: inversion waning as rate cutting cycle unfolds
- Consumer Confidence (98.7) - Mixed: present situation strong, future expectations weak
- Real Final Sales (+2.7% y/y) - Steady: consumer spending remained solid in Q1 2024

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

Chart of the Week: Existing Home Sales (SAAR, millions)



Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	QTD	YTD	3y Cum.
S&P 500	5,808	-1.0%	0.9%	0.9%	23.1%	33.3%
Dow Jones Indus. Avg.	42,114	-2.7%	-0.4%	-0.4%	13.4%	25.3%
NASDAQ	18,519	0.2%	1.8%	1.8%	24.1%	24.6%
S&P Midcap 400	3,108	-2.8%	-0.4%	-0.4%	13.1%	16.1%
Russell 2000 (Small Cap)	2,208	-3.0%	-0.9%	-0.9%	10.1%	-0.3%
MSCI EAFE (Int'l Dev Mkt Eq)	2,361	-2.0%	-4.3%	-4.3%	8.6%	11.4%
MSCI EM (Emerging Mkt Eq)	1,135	-1.8%	-3.0%	-3.0%	13.7%	-4.1%
MSCI World	3,706	-1.3%	-0.4%	-0.4%	18.4%	22.9%
S&P Global 1200	4,077	-1.3%	-0.5%	-0.5%	19.1%	25.7%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	QTD	YTD	3y Cum.
10y U.S. Treasuries	4.24%	-1.2%	-3.3%	-3.3%	0.2%	-12.0%
U.S. Bonds (Aggregate)	4.67%	-1.2%	-2.3%	-2.3%	2.0%	-5.9%
Global Bonds	3.58%	-0.9%	-3.1%	-3.1%	0.4%	-11.5%
U.S. Munis	3.64%	-1.1%	-1.4%	-1.4%	0.8%	-0.8%
U.S. Investment Grade Corp	5.10%	-1.0%	-2.2%	-2.2%	3.0%	-5.2%
U.S. High Yield Corporates	7.30%	-0.4%	-0.5%	-0.5%	7.5%	9.3%

US Interest Rates	Levels (%)					
	10/25/24	10/18/24	9/30/24	9/30/24	12/29/23	10/25/21
2y Treasuries	4.10	3.95	3.64	3.64	4.25	0.44
10y Treasuries	4.24	4.08	3.78	3.78	3.88	1.63
30y Treasuries	4.50	4.39	4.12	4.12	4.03	2.08
Fed Funds (Effective Rate)	4.83	4.83	4.83	4.83	5.33	0.08
SOFR (USD)	4.83	4.84	4.96	5.34	5.38	0.04
30y Fixed Mortgage	6.54	6.44	6.08	6.08	6.61	3.09

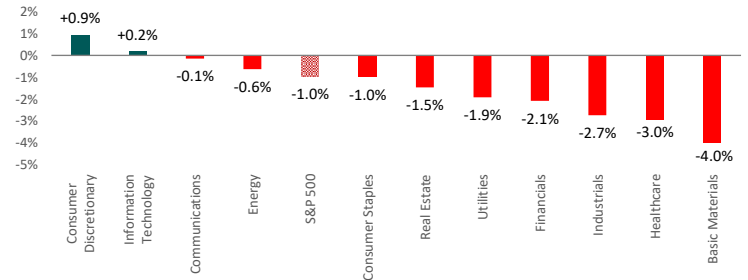
Commodity Prices	Levels					
	10/25/24	10/18/24	9/30/24	9/30/24	12/29/23	10/25/21
Oil (WTI)	71.78	69.22	68.17	83.17	71.65	83.76
Gasoline	3.14	3.18	3.20	3.20	3.12	3.39
Natural Gas	2.56	2.26	2.92	1.76	2.51	5.90
Gold	2,748	2,721	2,635	2,230	2,063	1,808

Currency Crosses	Levels					
	10/25/24	10/18/24	9/30/24	9/30/24	12/29/23	10/25/21
\$ per £	1.30	1.31	1.34	1.34	1.27	1.38
\$ per €	1.08	1.09	1.11	1.11	1.10	1.16
¥ per \$	152.3	149.5	143.6	143.6	141.0	113.7
\$ per Bitcoin	66,768	68,420	63,785	63,785	41,935	62,545

Macroeconomic Data	Value	Date	Next Rel. Cons Est	
			Next Rel.	Cons Est
Fed Funds Target (Floor)	4.75%	10/25/24	11/07/24	4.50%
Inflation (Core PCE Deflator)	2.7%	08/31/24	10/31/24	2.6%
Inflation (Headline CPI)	2.4%	09/30/24	11/13/24	-
Unemployment (U-3)	4.1%	09/30/24	11/01/24	4.1%
GDP Growth (Q/Q SAAR)	3.0%	06/30/24	10/30/24	3.0%
ISM Manufacturing PMI	47.2	09/30/24	11/01/24	47.6
Consumer Confidence	98.7	09/30/24	10/29/24	99.4

Data Sources: Bloomberg, FactSet

Sector Total Returns for the Week Ending 10/25/24



YTD Sector Total Returns as of 10/25/24

