



Wealth Advisors,
Investment Managers

Weekly Market Recap - 01/10/25

Market Commentary

Weekly Recap:

Bond yields rose and equities fell after stronger-than-expected labor market data and rising inflation expectations dampened rate cut hopes.

On the labor front, the monthly JOLTS report showed 8.1 million open jobs in the US for November, more than 350k above consensus estimates which had called for a small sequential decline. The prior month was revised higher as well.

Then on Friday, the monthly jobs report from the BLS also exceeded consensus, with 256k nonfarm payrolls added. Unemployment (U3) fell 10bp sequentially to 4.1%, and underemployment (U6) fell 20bp to 7.5%.

At the same time as the labor market was showing continued strength, inflation concerns were stoked by the ISM Services Index, as the Prices Paid component unexpectedly rose more than 6 points sequentially to 64.4.

And finally, preliminary January data from the University of Michigan's Consumer Sentiment survey showed rising inflation expectations over short (1y = 3.3%; +50bp m/m) and longer term (5-10y = 3.3%; +30bp m/m) time horizons.

The outcome for financial markets was predictable:

- * Fed funds futures now imply just one 25bp rate cut will occur in 2025
- * Treasury yields rose across the curve, with the 20y briefly breaking above 5%
- * Equity prices fell, led by rate-sensitive sectors like tech, financials and real estate

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 y/y growth in 2024, with consensus calling for an acceleration to double-digit y/y growth in 2025.

***Valuation** - The S&P 500's forward P/E of 21.5x 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** - After the "hawkish cut" at the December 2024 FOMC meeting, a near term pause on further rate cuts is likely, and the curve has mostly resumed its normal upward slope. Belly and long end rates in the 4% to 5% range likely represent the "new normal" given solid economic growth, lingering inflation pressures, and large US fiscal deficits.

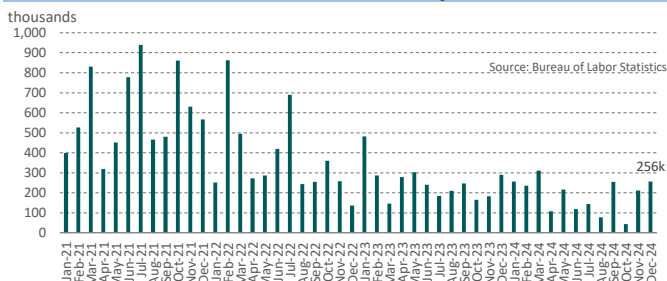
***Inflation** - After the disinflationary trend resumed in the summer of 2024, more recent inflation data has shown some renewed signs of stickiness. Services inflation remains somewhat elevated, in part due to heavily lagged shelter costs.

Albion's Dashboard of Key Leading Economic Indicators as of 01/10/25

- Initial Jobless Claims (213k 4wk m/a) - Steady: slightly above 200k for most of 2024
- Conference Board LEI (-3.5% y/y) - Beginning to rebound: rose sequentially in November
- Residential Building Permits (1,493k) - Steady: annualized run rate of -1.5M might be new normal
- Corporate Bond Spreads (0.80%) - Steady: near all time tight levels post-election
- Treasury Yield Curves (8.9% inv) - Stronger: inversion waning as rate cutting cycle unfolds
- Consumer Confidence (104.7) - Mixed: post-election bounce not sustained in December
- Real Final Sales (+2.8% y/y) - Steady: consumer spending has been solid throughout 2024

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

Chart of the Week: Net Nonfarm Payrolls Added



Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	QTD	YTD	3y Cum.
S&P 500	5,827	-1.9%	-0.9%	-0.9%	-0.9%	30.7%
Dow Jones Indus. Avg.	41,938	-1.8%	-1.4%	-1.4%	-1.4%	23.6%
NASDAQ	19,162	-2.3%	-0.8%	-0.8%	-0.8%	31.4%
S&P Midcap 400	3,099	-1.7%	-0.7%	-0.7%	-0.7%	17.0%
Russell 2000 (Small Cap)	2,189	-3.5%	-1.8%	-1.8%	-1.8%	5.3%
MSCI EAFE (Int'l Dev Mkt Eq)	2,245	-0.4%	-0.7%	-0.7%	-0.7%	7.2%
MSCI EM (Emerging Mkt Eq)	1,057	-1.5%	-1.6%	-1.6%	-1.6%	-6.0%
MSCI World	3,678	-1.6%	-0.8%	-0.8%	-0.8%	21.8%
S&P Global 1200	4,025	-1.6%	-0.9%	-0.9%	-0.9%	23.0%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	QTD	YTD	3y Cum.
10y U.S. Treasuries	4.76%	-1.2%	-1.4%	-1.4%	-1.4%	-14.2%
U.S. Bonds (Aggregate)	5.09%	-0.9%	-1.0%	-1.0%	-1.0%	-6.5%
Global Bonds	3.83%	-1.0%	-1.3%	-1.3%	-1.3%	-13.0%
U.S. Munis	3.83%	-0.9%	-0.7%	-0.7%	-0.7%	-1.5%
U.S. Investment Grade Corp	5.52%	-1.0%	-1.1%	-1.1%	-1.1%	-5.7%
U.S. High Yield Corporates	7.52%	-0.3%	0.0%	0.0%	0.0%	10.3%

US Interest Rates	Levels (%)					
	1/10/25	1/3/25	12/31/24	12/31/24	12/31/24	1/10/25
2y Treasuries	4.38	4.28	4.24	4.24	4.24	0.89
10y Treasuries	4.76	4.60	4.57	4.57	4.57	1.76
30y Treasuries	4.95	4.81	4.78	4.78	4.78	2.09
Fed Funds (Effective Rate)	4.33	4.33	4.33	4.33	4.33	0.08
SOFR (USD)	4.30	4.31	4.49	4.49	4.49	0.05
30y Fixed Mortgage	6.93	6.91	6.85	6.85	6.85	3.22

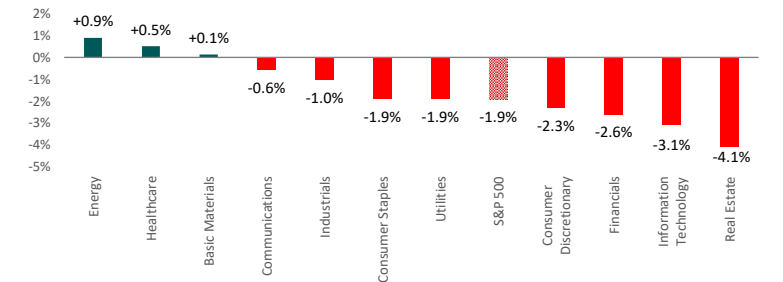
Commodity Prices	Levels					
	1/10/25	1/3/25	12/31/24	12/31/24	12/31/24	1/10/25
Oil (WTI)	76.57	73.96	71.72	71.72	71.72	78.23
Gasoline	3.06	3.06	3.06	3.06	3.06	3.30
Natural Gas	3.99	3.35	3.63	3.63	3.63	4.08
Gold	2,690	2,640	2,625	2,625	2,625	1,802

Currency Crosses	Levels					
	1/10/25	1/3/25	12/31/24	12/31/24	12/31/24	1/10/25
\$ per €	1.22	1.24	1.25	1.25	1.25	1.36
\$ per ¥	1.02	1.03	1.04	1.04	1.04	1.13
¥ per \$	157.7	157.3	157.2	157.2	157.2	115.2
\$ per Bitcoin	94,620	98,243	93,714	93,714	93,714	41,729

Macroeconomic Data	Value	Date	Next Rel. Cons Est	
			Next Rel.	Cons Est
Fed Funds Target (Floor)	4.25%	01/10/25	01/29/25	-
Inflation (Core PCE Deflator)	2.8%	11/30/24	01/31/25	-
Inflation (Headline CPI)	2.7%	11/30/24	01/15/25	2.9%
Unemployment (U-3)	4.1%	12/31/24	02/07/25	-
GDP Growth (Q/Q SAAR)	3.1%	09/30/24	01/30/25	-
ISM Manufacturing PMI	49.3	12/31/24	02/03/25	-
Consumer Confidence	104.7	12/31/24	01/28/25	-

Data Sources: Bloomberg, FactSet

Sector Total Returns for the Week Ending 01/10/25



YTD Sector Total Returns as of 01/10/25

