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Guiding Clients
To A Lifetime of
Good Decisions

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INTRODUCTION

As we begin the final quarter of the year, we would like to share with you some important updates and insights on the financial landscape. In this letter, CEO John Bird covers the impact of the United Auto Workers strike on the auto industry, CIO Jason Ware reports on the state of the economy and markets, and our Senior Wealth Advising team shares a checklist of end-of-year actions to help you optimize your financial plan. Check the Community segment to learn of Albion's recent national recognition and about upcoming events on the calendar. We hope you find this letter informative and useful, and we thank you for your continued trust and partnership.

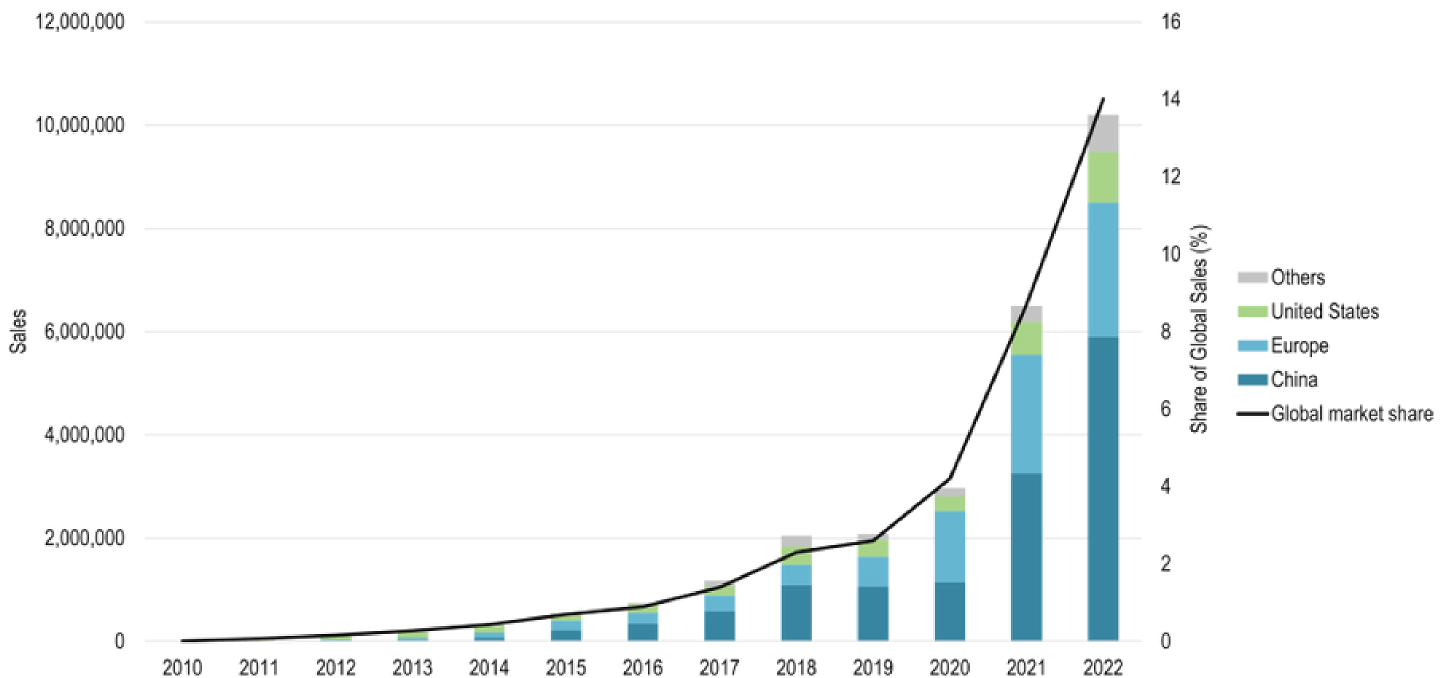
FROM JOHN BIRD'S DESK

If we peel away the vitriol from our national political dialogue we can surface the complexity of the issues we face and the choices to be made. As our concerns as investors are primarily economic that's where we'll set our boundaries.

The UAW strike is a clear example of complex economic pressures to which there is no clear-cut solution.

The striking workers gave up a lot in the 2008 recession and have seen their real wages shrink in the years since. They see the legacy auto companies booking record profits and believe that not only should they be earning more than they did a decade ago in real terms but should participate in the financial success of their

Electric car sales, 2010 to 2022



Electric car markets are seeing exponential growth as sales exceeded 10 million in 2022. The share of electric cars in total sales has more than tripled in three years, from around 4% in 2020 to 14% in 2022.

employers. They are also deeply concerned about job security. They've seen plants closed and production moved to lower cost non-union venues. They watch efficiencies enter factories that reduce the man hours required to build a vehicle. They see EVs encroaching on internal combustion engine (ICE) sales and are aware EVs take far fewer hours to build. They want good wages and they want security.

The manufacturers see big challenges on the road ahead. They must be cost competitive not only with their domestic rivals but with auto manufacturers around the globe. They know one path to remaining competitive is through automation – reducing the man-hours required to build each vehicle. They are well behind the curve on the rise of EVs and know they need to catch up. They also know that EVs take far fewer man-hours per vehicle. They know they need to change but also see that they currently make their money with ICE vehicles and lose money with EVs. This reality has caused some foot dragging on the EV front.

Reminds me of Kodak. In 1975 Kodak developed the first digital camera. But they were loath to push hard on the technology and take it to market because they feared cannibalizing their very profitable film business. They were slow to respond to the digital revolution and declared bankruptcy in 2012.

One can argue that the tax incentives for EVs skew the market and without such incentives EVs would not be as much of a threat to ICE vehicles. Fair point. One could also argue that ICE vehicles have benefited from government subsidies and help for decades whether through tax benefits associated with oil exploration and production or the Federal bailout of automakers in 2009.

Even without incentives the market is changing. In 2020 global EV sales were around 3 million units. In 2023 global sales will be around 14 million vehicles. In the U.S 2020 saw about 300,000 EV cars sold while in 2023 that number will likely exceed 1.6 million units out of

approximately 14 million total vehicles.

Which brings us back to the current impasse between the UAW and the auto manufacturers. The UAW wants certainty of employment, good wages and a share of the upside. The manufacturers want flexibility in both cost and quantity of labor. While this is an oversimplification of a complex issue it does highlight the friction that will always exist in a capitalist system.

There are structural adjustments we can make as a society that would be helpful for the long-term viability of our system of government. The wealth gap between the haves and have-nots is significant. This has been headline-making material during the strike as CEO pay is compared to line worker pay. Every time such a gap has happened in the past it has corrected, typically through violence and suffering, occasionally through changes in policy. However solving the wealth gap is a government policy issue; not the responsibility of the UAW and the auto companies. The responsibility of the UAW and the auto companies is to negotiate in good faith to find a way that allows our auto industry to have the flexibility to make the changes required to survive and thrive while recognizing and rewarding the contribution of those working in the industry. Capitalism is a messy process. Unfortunately this means companies and industries will occasionally fail and be replaced by more competitive business models. It happened to Kodak. While I certainly don't wish or expect that to happen with our legacy auto manufacturers as a result of this strike, I do think we have to be open to the reality that over time companies must adapt or die. It's normal.

In this complex economic environment we continue to seek out companies that are not burdened by legacy assets with which they are challenged to generate a reasonable return. We'd rather own companies that are creating the products the market wants now and is likely to want well into the future. It's a dynamic world out there and we must adapt with it.

Please know that we work each day to validate the trust and confidence you've placed in us. Thank you.

ECONOMY & MARKETS by Jason Ware

Apple cider, pumpkin spice lattes, changing leaves and cooler temperatures are the hallmarks of the fall season. Indeed, as we round out the third quarter the transition from pools to pecan pie is evident. Also evident is the (continued) chilling of inflation amid the process of "economic normalization" regarding supply chains and demand, a decelerating business cycle, and higher interest rates. To be sure, the further the Covid pandemic recedes into the background the more balance is restored to the US economy. And refurbishing equilibrium is critical as it relates to the idea of truly returning to normal. But what is *normal*? The answer depends on who you ask. We'll touch on this question in a moment. But first, let's review recent happenings.

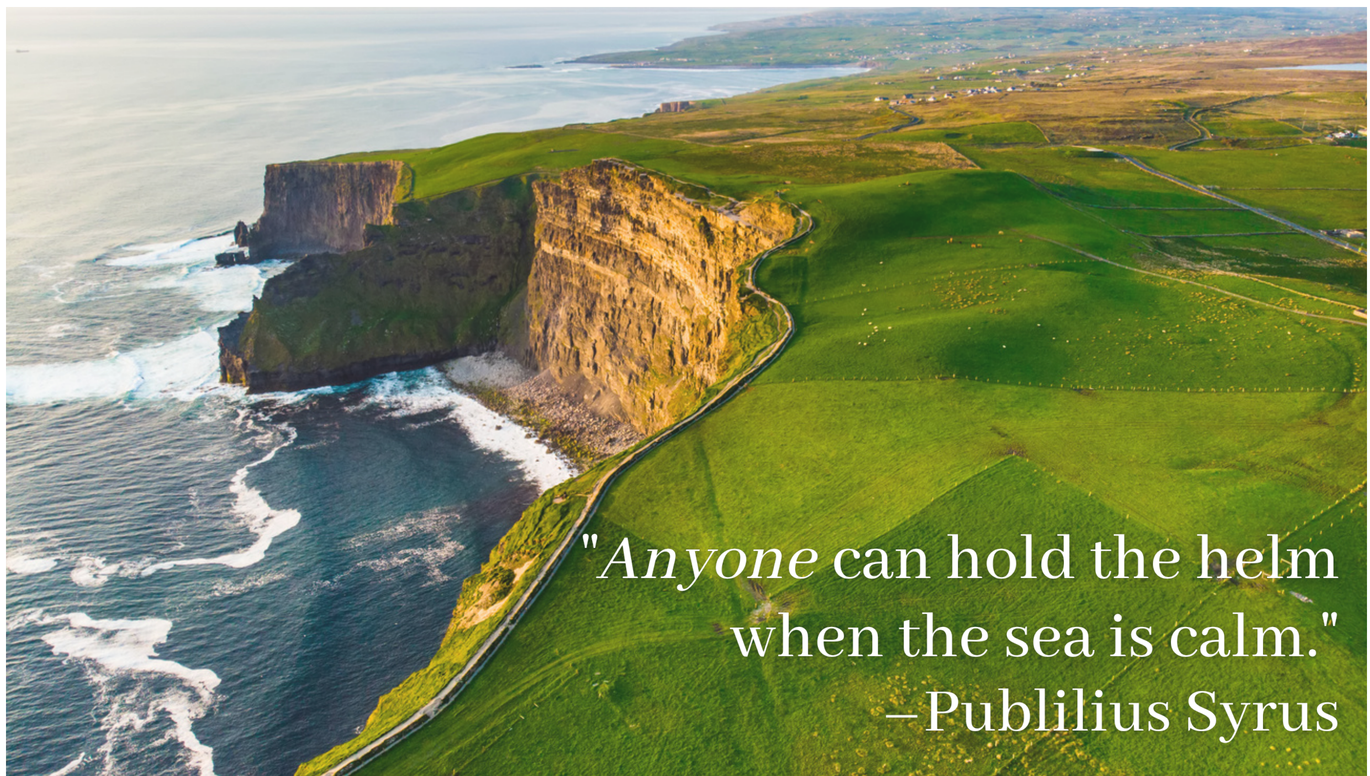
The American economy sustained expansion in the July through September period. While we don't have official GDP figures yet, it's likely inflation-adjusted (real) total output expanded north of +3% on an annualized basis. It's a healthy pace, underpinned by a resilient consumer and companies restocking dwindling inventories. A strong job market, including above-trend wage growth, also remains a central feature of the contemporary macroeconomic environment. Meanwhile, the Fed (FOMC) raised rates by another +0.25% at their July meeting taking their main policy rate to 5.25-5.50%, a level not seen since 2001. However, at their most recent confab (some two weeks

ago) they held steady. It is likely that the Fed is either done raising rates or is one hike away from being finished – a distinction without a difference. We are past “peak Fed.” This is because, as noted, the inflation genie is descending back into the bottle now running at just over 3% (cycle peak was over 9%). Our expectation is that inflation continues to trail lower over time.

Admittedly, that mosaic doesn’t sound too bad … so what are we seeing that has us (still) relatively guarded? First, our internal economic dashboard tracking our favored leading indicators continues to signal elevated recession risk. These variables do move around month-to-month, quarter-to-quarter, often changing to some degree the complexion of the dashboard. Nevertheless, the general message it’s conveyed is one of caution. To be clear, we don’t envisage a crisis but rather a “garden variety” slump could be in the offing. Second, other information like stiffened bank lending standards, rundown household savings balances, a visibly exhausted consumer (as measured by underlying transactions), and a softening labor market have our attention. Add to this a resumption of student loan payments, labor strikes (UAW, etc.), and the threat of a full federal government shutdown, and a soft patch ahead seems possible.

As for businesses, profitability remains tested. Things haven’t fallen off a cliff but the brew of higher input costs (namely, wage costs) amidst fading pricing power and total demand have hit corporate margins. The result has been modestly lower earnings from highs logged late last year. Outside of AI, management teams sound more circumspect concerning forthcoming prospects. Count us as part of this more restrained crowd as it pertains to the earnings outlook over the next couple / few quarters.

In the opening paragraph we referenced this idea of “normal.” You may recall that our overarching theme at the start of 2021 was “getting back to normal.” Meaning, vaccinations and a global reopening were quickly transporting life, socially speaking, past the acute phase of the pandemic and toward a world more



familiar. At this stage, "normal" to us denotes something different: a restoration of the laws of financial physics. After over a decade of near zero interest rates (negative in *real* terms) and quantitative easing (QE), conditions seem ripe for a more standard monetary policy regime including positive real interest rates and a Fed less uneasy about *deflationary* risks – a preoccupation of the 2010s. It took a massive global financial crisis to first alter the normal contours of monetary policy, and a global pandemic to jolt us back. For a variety of reasons, we don't anticipate a return to ultra-easy central banking activities any time soon. This notion carries implications for financial markets. This is not to be taken as a negative. We lived that way for decades afore the financial crisis, and we'll be OK today.

Speaking of markets, after a strong first half of the year for the *market-cap-weighted* S&P 500, the third quarter saw a more sidelong pattern emerge as those gains were "digested" and the above-mentioned trepidations abridged further advances in the index. Adding to these uncertainties, bond yields and crude oil prices rose appreciably over the past three months putting further pressure on equities. Zooming the lens out, for the whole of 2023 the US stock market has seen but a handful of big winners and then there's everything else (flat or down). This "equity skewness", as it's called, has produced a narrow bull market and penalized more diversified portfolios. Notwithstanding this fact, our penchants for building portfolios adorned with quality companies (investments) with deliberate tilts has largely served us well. We will continue to manage your accounts guided by an unwavering and principled investment philosophy.

As we have noted in prior quarterly missives, the consequence of our uncharacteristically careful outlook means we have added a modest amount of "defense" to growth portfolios while remaining fully invested. The goal is to lessen downside volatility while providing a more established tarn of funds to draw on when the next significant market correction arrives. We consider this approach to strike a sensible balance between being long-term investors while respecting short-term economic challenges. We will continue to monitor the landscape and manage your capital using time-tested methods and the best possible information. Many thanks for your unremitting trust in us.

PLANNERS CORNER from the Senior Wealth Advisors

It is officially fall in Utah with cooler temperatures and changing leaves. It is this time of year that we start thinking about end of year planning. Here are some of the more common items we expect to help clients complete before year-end:

- Charitable contributions
- Funding of some retirement accounts
- Required minimum distributions from IRAs, Inherited IRAs and retirement accounts
- Required trust distributions
- Fourth quarter estimated state and federal tax payments (due Jan 15th, 2024)
- Roth IRA conversion opportunity
- We will review realized gains and losses for tax year 2023. If you have substantial gains or losses that occurred outside of the accounts managed by Albion, please let us know.

December can be a busy month so please contact us by Friday, December 8th if we can assist you with any of these items.

ALBION COMMUNITY UPDATE

Albion Named One of CNBC's Top 100 Financial Advisory Firms of 2023

Albion Financial Group is honored to have been included on CNBC's 'Financial Advisor 100 List' for the *third consecutive year.*

This recognition places us among the top financial advisory firms in the nation. We are proud of our consistent presence on this prestigious list. It is a testament to our expertise and dedication, however our true measure of success, is the satisfaction of each client we serve.

As we celebrate our 41st year in business, we express our sincere gratitude to our clients for their ongoing loyalty and support. Cheers to many more years of providing exceptional financial planning and investment services!

ALBION FINANCIAL GROUP

Women of Albion Event

On the evening of **Thursday, October 26, 2023**, Women of Albion will be hosting an exclusive screening of *Advice For Girls*, an all-women ski film in Park City, Utah. The event will include a Q&A with some of the athletes and crew. Everyone is welcome to attend. You can register on our website on the Events page - ***https://albionfinancial.com/events/***

Albion Financial Group - Conference Call

On **Wednesday, Nov 15, 2023 09:00 AM MT**, Albion Financial Group will be holding our semi-annual conference call with panelists discussing current economic concerns and addressing audience questions. You can register on our website on the Events page - ***https://albionfinancial.com/events/***