ALBION FINANCIAL GROUP | Wealth Advisors, Investment Managers

Weekly Market Recap - 02/19/21

Market Commentary

Weekly Recap:

US equities were mixed last week. Large cap cyclicals rose, including energy, financials, materials, and industrials, pushing the Dow to a record high during Wednesday's session. However, sectors like technology, communications, and healthcare finished lower, resulting in small losses for the S&P 500 and Nasdaq Composite. Small and midcap US stocks were also down slightly, while international stock indices managed to eke out small gains.

Last week's most prominent market action was in rates, as Treasury yields moved higher on the back of PPI inflation and retail sales figures that blew past consensus estimates. The 10-year finished the week at 1.34% (+13bp w/w), while the 30-year closed at 2.13% (+12bp w/w). Credit spreads compressed slightly, particularly in high yield, but not enough to prevent price declines across most spread-oriented sectors of the bond market.

Oil finally took a pause, finishing slightly lower on Friday after trading above $60/barrel (WTI) for most of the week. Market participants are anticipating a rise in OPEC+ production, and a short-term drop in demand as refineries take time to recover from freezing weather across much of the southern US.

In other economic news, weekly jobless claims remained range-bound, while residential building permits rose to a fresh 15-year high of 1.88 million (SAAR), a positive sign for housing and the broader economy in 2021. See the Chart of the Week for a time series.

Albion's "Four Pillars":

*Economy & Earnings - The New York Fed's Weekly Economic Index estimates real-time GDP growth to be -2.3% y/y. Growth is expected to be modest early in 2021, and pick up in the second half of the year.

*Equity Valuation - at 22x forward earnings the S&P is certainly not cheap, and long-term valuation metrics like CAPE (cyclically adjusted P/E ratio) suggest that compound annual returns over the coming decade are likely to be in the single digits. That said, lower equity returns may be justified in the context of ultra-low yields on alternatives like bonds and cash.

*Interest Rates - The low interest rate environment remains a positive for equities, by supporting valuations and lowering corporate borrowing costs.

*Inflation - After staving off deflation early in the pandemic, the Fed has communicated tolerance for short periods of above-target inflation. A cyclical bump in inflation may occur in 2021 as pent-up demand is released, testing the Fed's resolve, but we do not expect higher inflation to persist.

Market Data

Equity Indices	Close	1 Week	Jan '21	YTD	1 Year	3y Cum.
		Index Total Returns (%)				
S&P 500	3,907	-0.7%	4.9%	4.2%	17.4%	51.4%
Dow Jones Indus. Avg.	31,494	0.2%	3.0%	3.2%	9.7%	33.8%
NASDAQ	13,874	-1.5%	9.4%	7.8%	42.5%	97.5%
S&P Midcap 400	2,535	-0.3%	10.4%	10.1%	22.8%	40.1%
Russell 2000 (Small Cap)	2,267	-1.0%	16.0%	14.9%	35.7%	53.0%
MSCI EAFE (Int'l Dev Mkt Eq)	2,233	0.3%	3.8%	4.1%	13.6%	18.4%
MSCI EM (Emerging Mkt Eq)	1,430	0.1%	10.8%	10.9%	32.9%	29.3%

Fixed Income	Yield	1 Week	Jan '21	YTD	1 Year	3y Cum.
		Index Total Returns (%)				
10y U.S. Treasuries	1.34%	-1.3%	-2.4%	-3.7%	3.2%	20.7%
U.S. Bonds (Aggregate)	1.33%	-0.6%	-1.2%	-1.8%	3.5%	17.3%
Global Bonds	1.01%	-0.6%	-1.3%	-1.9%	6.8%	12.2%
U.S. Munis	1.05%	-0.8%	1.0%	0.2%	3.4%	16.6%
U.S. Investment Grade Corp	1.97%	-0.7%	-1.8%	-2.5%	4.3%	22.7%
U.S. High Yield Corporates	3.99%	0.0%	1.3%	1.3%	7.2%	22.0%

US Interest Rates	2/19/21	2/12/21	12/31/20	12/31/20	2/19/20	2/19/18
	Levels (%)					
2y Treasuries	0.10	0.11	0.12	0.12	1.42	2.19
10y Treasuries	1.34	1.21	0.91	0.91	1.57	2.87
30y Treasuries	2.13	2.01	1.64	1.64	2.01	3.13
3m LIBOR (USD)	0.18	0.19	0.24	0.24	1.70	1.20
30y Fixed Mortgage	2.81	2.73	2.67	2.67	3.47	4.38
Prime Rate	3.25	3.25	3.25	3.25	4.75	4.50

Commodity Prices	2/19/21	2/12/21	12/31/20	12/31/20	2/19/20	2/19/18
	Levels					
Oil (WTI)	59.24	59.47	48.52	48.52	53.29	49.80
Gasoline	2.62	2.50	2.25	2.25	2.46	2.53
Natural Gas	3.07	2.91	2.54	2.54	1.96	3.24
Gold	1,784	1,824	1,898	1,898	1,612	1,346

Currency Crosses	2/19/21	2/12/21	12/31/20	12/31/20	2/19/20	2/19/18
	Levels					
$ per £	1.40	1.38	1.37	1.37	1.29	1.40
$ per €	1.21	1.21	1.22	1.22	1.08	1.24
¥ per $	105.5	104.9	103.3	103.3	111.4	106.6
$ per Bitcoin	55,629	47,947	28,996	28,996	9,612	11,081

Macroeconomic Data	Value	Date
Fed Funds Target (Floor)	0.0%	02/19/21
Inflation (Core PCE Def)	1.5%	12/31/20
Unemployment (U-3)	6.3%	01/31/21
GDP Growth (Q/Q SAAR)	4.0%	12/31/20
ISM Manufacturing PMI	58.7	01/31/21
Consumer Confidence	89.3	01/31/21

Data Source: Bloomberg

Albion's Dashboard of Key Leading Economic Indicators as of 02/19/21

- Initial Jobless Claims (833k) - Steady: claims have been 700-900k per week since Sept
- Conference Board LEI (-1.7%) - Stronger: 8 consecutive months of sequential improvement
- Building Permits (1,881k) - Stronger: now exceeding pre-pandemic levels
- Corporate Bond Spreads (0.85%) - Stronger: Fed support has improved credit conditions
- Treasury Yield Curve (+123bp) - Stronger: 2s10s curve has steepened on vaccine news
- Consumer Confidence (89.3) - Steady: slight improvement in Jan after Nov/Dec pullback
- Real Final Sales (-2.7%) - Steady: slight improvement in Q4 after strong Q3 rebound

Legend: • = All Clear; • = Minor Concern; • = Strong Warning

Sector Total Returns for the Week Ending 02/19/21

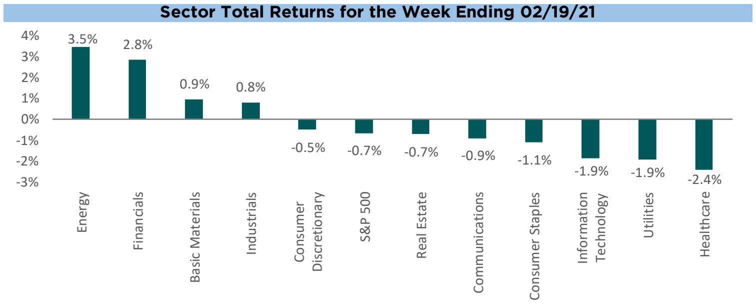
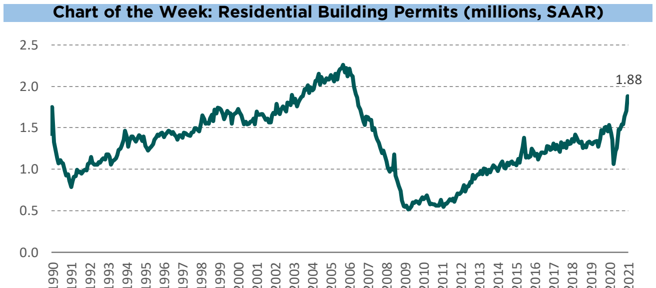


Chart of the Week: Residential Building Permits (millions, SAAR)



YTD Sector Total Returns as of 02/19/21