



**ALBION  
FINANCIAL  
GROUP**

Wealth Advisors,  
Investment Managers

## Market Commentary

### Weekly Recap:

Equity markets were mixed last week, with significant dispersion across sectors. Cyclical performed well, including energy (+10.1%), financials (+4.4%), industrials (+3.1%), and basic materials (+2.5%). Conversely, large cap technology stocks continued to struggle as they have for much of 2021, pulling the Nasdaq into the red for the week. Meanwhile, midcap stocks were higher while small caps were lower, narrowing the 2021 performance gap between the two. International stocks were mixed as well.

The selloff in Treasuries continued unabated last week: 10y yields rose 17bp, while 30y yields were up 15bp. Credit spreads, which began 2021 already on the tight side of historical averages, have been unable to compress enough to offset the move in rates, leading to price declines in corporate bonds across the credit spectrum. The only part of the bond market that remains in positive YTD total return territory is high yield (aka, sub-investment grade), owing to its shorter duration and lower exposure to Treasury yields.

Oil lurched higher last week after OPEC+ surprised the market by extending output cuts into April. Meanwhile the US dollar surged to its highest level since late November, relative to a basket of international currencies.

Friday's jobs report was encouraging, as nonfarm payrolls (+379k) increased sequentially for the second consecutive month after falling into negative territory in December. 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 - the S&P 500's forward P/E of 21x is above the historical average, 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 - Rates remain low by historical standards despite recent volatility, supporting equity valuations and lowering borrowing costs.

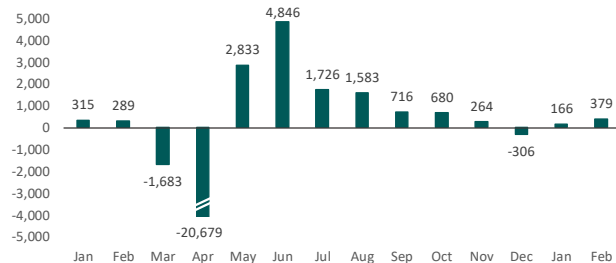
\*Inflation - After staving off deflation early in the pandemic, the Fed has communicated tolerance for short periods of above-target inflation. A cyclical bump in inflation may occur in 2021 as pent-up demand is released, testing the Fed's resolve, but we do not expect higher inflation to persist.

### Albion's Dashboard of Key Leading Economic Indicators as of 03/05/21

- Initial Jobless Claims (791k) - Steady: claims have been 700-900k per week since Sept
- Conference Board LEI (-1.5%) - Stronger: 9 consecutive months of sequential improvement
- Building Permits (1,886k) - Stronger: now exceeding pre-pandemic levels
- Corporate Bond Spreads (0.91%) - Stronger: Fed support has improved credit conditions
- Treasury Yield Curve (+143bp) - Stronger: 2s10s curve has steepened on vaccine news
- Consumer Confidence (91.3) - Steady: slight improvement in Jan/Feb 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

### Chart of the Week: US Nonfarm Payrolls



## Weekly Market Recap - 03/05/21

### Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
S&P 500	3,842	0.8%	0.8%	2.6%	29.3%	49.5%
Dow Jones Indus. Avg.	31,496	1.8%	1.8%	3.3%	23.3%	35.7%
NASDAQ	12,920	-2.0%	-2.0%	0.4%	49.1%	81.6%
S&P Midcap 400	2,513	0.7%	0.7%	9.2%	39.4%	39.1%
Russell 2000 (Small Cap)	2,192	-0.4%	-0.4%	11.1%	50.1%	47.7%
MSCI EAFE (Int'l Dev Mkt Eq)	2,156	-0.5%	-0.5%	0.7%	19.1%	17.8%
MSCI EM (Emerging Mkt Eq)	1,339	0.1%	0.1%	3.9%	32.1%	23.6%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	1.57%	-1.6%	-1.6%	-5.6%	-4.6%	18.1%
U.S. Bonds (Aggregate)	1.51%	-0.8%	-0.8%	-2.9%	-0.3%	16.0%
Global Bonds	1.11%	-1.0%	-1.0%	-3.6%	1.9%	10.4%
U.S. Munis	1.21%	0.3%	0.3%	-0.7%	1.5%	15.5%
U.S. Investment Grade Corp	2.22%	-1.6%	-1.6%	-4.5%	0.2%	20.7%
U.S. High Yield Corporates	4.34%	-0.2%	-0.2%	0.5%	8.3%	21.3%

US Interest Rates	Levels (%)					
	3/5/21	2/26/21	2/26/21	12/31/20	3/5/20	3/5/18
2y Treasuries	0.14	0.13	0.13	0.12	0.60	2.24
10y Treasuries	1.57	1.40	1.40	0.91	0.91	2.88
30y Treasuries	2.30	2.15	2.15	1.64	1.54	3.15
3m LIBOR (USD)	0.19	0.19	0.19	0.24	1.00	1.20
30y Fixed Mortgage	3.02	2.97	2.97	2.67	3.29	4.43
Prime Rate	3.25	3.25	3.25	3.25	4.25	4.50

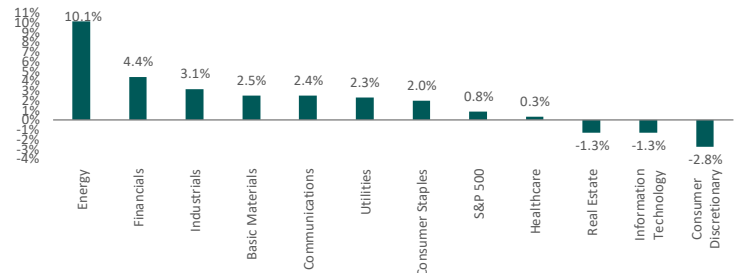
Commodity Prices	Levels					
	3/5/21	2/26/21	2/26/21	12/31/20	3/5/20	3/5/18
Oil (WTI)	66.09	61.50	61.50	48.52	45.90	49.80
Gasoline	2.76	2.71	2.71	2.25	2.40	2.53
Natural Gas	2.70	2.77	2.77	2.54	1.77	3.24
Gold	1,701	1,734	1,734	1,898	1,672	1,320

Currency Crosses	Levels					
	3/5/21	2/26/21	2/26/21	12/31/20	3/5/20	3/5/18
\$ per £	1.38	1.39	1.39	1.37	1.30	1.38
\$ per €	1.19	1.21	1.21	1.22	1.12	1.23
¥ per \$	108.3	106.6	106.6	103.3	106.2	106.2
\$ per Bitcoin	49,053	45,672	45,672	28,996	9,116	11,556

Macroeconomic Data	Value	Date
Fed Funds Target (Floor)	0.0%	03/05/21
Inflation (Core PCE Def)	1.5%	01/31/21
Unemployment (U-3)	6.2%	02/28/21
GDP Growth (Q/Q SAAR)	4.1%	12/31/20
ISM Manufacturing PMI	60.8	02/28/21
Consumer Confidence	91.3	02/28/21

Data Source:  
Bloomberg

### Sector Total Returns for the Week Ending 03/05/21



### YTD Sector Total Returns as of 03/05/21

