



Wealth Advisors,
Investment Managers

Weekly Market Recap - 05/14/21

Market Commentary

Weekly Recap:

Equity markets rode a roller coaster fueled by inflation fears last week, with most stocks finishing lower. Headline inflation (as measured by CPI) rose above 4% for the first time since 2008, causing a short-lived spike in interest rates as well as widespread selling in equities as discount rates were recalibrated. The fear of persistently higher inflation began to subside a bit on Friday, allowing rates to fall and equities to recoup some of their losses.

Large cap tech stocks were hit the hardest, dragging down sector performance for communications (-2.0%), information technology (-2.2%), and consumer discretionary (-3.7%). Meanwhile, cyclicals as well as traditional defensive sectors were mixed, with only consumer staples (+0.4%), financials (+0.3%), and basic materials (+0.1%) finishing higher on the week.

Interest rates finished the week modestly higher, with benchmark 10y Treasury yields rising 5bp while 30y yields were up 6bp. Credit spreads were mostly stable, resulting in small price declines across all sectors of the bond market on the back of the rise in Treasury yields.

Oil prices rose, with WTI closing back above the \$65/barrel threshold. Meanwhile, the national average price of gasoline rose above \$3 per gallon for the first time since late 2014. See the Chart of the Week for a time series.

Albion's "Four Pillars":

*Economy & Earnings - GDP growth was +6.4% annualized in Q1 2021, and is forecast to accelerate to +8.1% in Q2. Meanwhile, EPS for the S&P 500 turned positive y/y in Q4 2020 and will rise significantly y/y in Q1 2021 as the economy laps the onset of the pandemic.

*Equity Valuation - the S&P 500's forward P/E of 22x 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.

Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
S&P 500	4,174	-1.3%	-0.1%	11.7%	48.7%	61.8%
Dow Jones Indus. Avg.	34,382	-1.1%	1.6%	13.1%	48.6%	47.9%
NASDAQ	13,430	-2.3%	-3.8%	4.5%	51.3%	86.6%
S&P Midcap 400	2,722	-1.7%	-0.1%	18.5%	76.2%	47.7%
Russell 2000 (Small Cap)	2,225	-2.0%	-1.8%	13.0%	81.8%	44.7%
MSCI EAFE (Int'l Dev Mkt Eq)	2,292	-1.3%	1.3%	8.2%	48.2%	21.5%
MSCI EM (Emerging Mkt Eq)	1,308	-3.0%	-2.9%	1.9%	48.7%	21.5%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	1.63%	-0.4%	0.1%	-5.9%	-7.8%	18.4%
U.S. Bonds (Aggregate)	1.54%	-0.4%	-0.1%	-2.7%	-0.2%	16.5%
Global Bonds	1.16%	-0.5%	0.2%	-3.1%	5.0%	12.6%
U.S. Munis	1.06%	-0.2%	0.0%	0.5%	5.9%	16.1%
U.S. Investment Grade Corp	2.17%	-0.5%	0.0%	-3.6%	5.5%	22.5%
U.S. High Yield Corporates	4.12%	-0.3%	0.0%	2.0%	19.6%	22.2%

US Interest Rates	Levels (%)					
	5/14/21	5/7/21	4/30/21	12/31/20	5/14/20	5/14/18
2y Treasuries	0.15	0.14	0.16	0.12	0.15	2.55
10y Treasuries	1.63	1.58	1.63	0.91	0.62	3.00
30y Treasuries	2.34	2.28	2.30	1.64	1.29	3.13
3m LIBOR (USD)	0.16	0.16	0.18	0.24	0.39	2.33
30y Fixed Mortgage	2.94	2.96	2.98	2.67	3.28	4.55
Prime Rate	3.25	3.25	3.25	3.25	3.25	4.75

Commodity Prices	Levels					
	5/14/21	5/7/21	4/30/21	12/31/20	5/14/20	5/14/18
Oil (WTI)	65.37	64.90	63.58	48.52	27.56	49.80
Gasoline	3.04	2.96	2.90	2.25	1.87	2.88
Natural Gas	2.96	2.96	2.93	2.54	1.68	3.24
Gold	1,843	1,831	1,769	1,898	1,730	1,314

Currency Crosses	Levels					
	5/14/21	5/7/21	4/30/21	12/31/20	5/14/20	5/14/18
\$ per €	1.41	1.40	1.38	1.37	1.22	1.36
\$ per ¥	1.21	1.22	1.20	1.22	1.08	1.19
¥ per \$	109.4	108.6	109.3	103.3	107.3	109.7
\$ per Bitcoin	49,194	57,684	56,814	28,996	9,657	8,812

Macroeconomic Data	Value	Date
	Fed Funds Target (Floor)	0.0%
Inflation (Core PCE Def)	1.8%	03/31/21
Unemployment (U-3)	6.1%	04/30/21
GDP Growth (Q/Q SAAR)	6.4%	03/31/21
ISM Manufacturing PMI	60.7	04/30/21
Consumer Confidence	121.7	04/30/21

Data Source:
Bloomberg, FactSet

Albion's Dashboard of Key Leading Economic Indicators as of 05/14/21

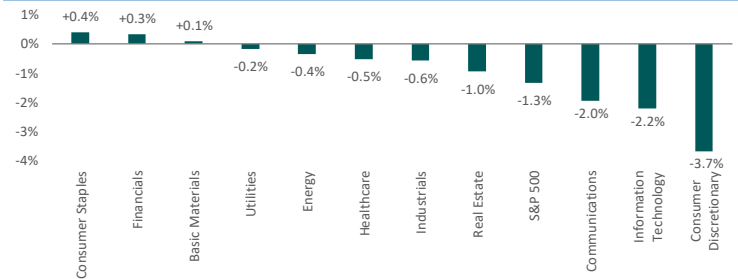
- Initial Jobless Claims 4wma (\$34k) - Stronger: claims are slowly trending lower
- Conference Board LEI (+7.9%) - Stronger: 11 consecutive months of sequential improvement
- Building Permits (1,759k) - Stronger: now exceeding pre-pandemic levels
- Corporate Bond Spreads (0.82%) - Stronger: spreads are near YTD tightests for 2021
- Treasury Yield Curve (+148bp) - Steady: 2s10s curve is within the typical post-recession range
- Consumer Confidence (121.7) - Stronger: huge gains in March/April on vaccine availability
- Real Final Sales (+0.4%) - Stronger: 3 consecutive quarters of growth, positive y/y

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

Chart of the Week - US National Average Gasoline Price



Sector Total Returns for the Week Ending 05/14/21



YTD Sector Total Returns as of 05/14/21

