



**ALBION
FINANCIAL
GROUP**

Wealth Advisors,
Investment Managers

Market Commentary

Weekly Recap:

Equities were mixed last week. In the US, traditional defensives rose, including real estate, healthcare, and utilities. Technology stocks were mixed, while cyclically sensitive sectors were lower. Small and midcap indices were also down on the week, while major international indices finished higher.

Despite some day to day volatility, bond markets finished close to where they started. Benchmark 10y US Treasury yields ended the week 1bp lower, while 30y yields fell 2bp on the week. Investment grade credit spreads were stable, keep corporate and muni bond prices essentially unchanged.

After setting a new pandemic-era high during the previous week, oil pulled back on concerns that supply from Iran could return to the market if sanctions are eased.

Cryptocurrency markets experienced wild price swings coupled with service outages at multiple exchanges after China signaled it would increase regulatory oversight of crypto mining. Bitcoin finished the week down by nearly 30%, and extended the selloff over the weekend.

Forward-looking economic news was positive: residential building permits remained strong, initial jobless claims fell to fresh pandemic lows, and the Conference Board's Index of Leading Economic Indicators (LEI) rose to an all-time high on a y/y basis. 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.

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

- Initial Jobless Claims 4wma (505k) - Stronger: claims are slowly trending lower
- Conference Board LEI (+17.0%) - Stronger: 12 consecutive months of sequential improvement
- Building Permits (1,760k) - Stronger: now exceeding pre-pandemic levels
- Corporate Bond Spreads (0.82%) - Stronger: spreads are near YTD tightests for 2021
- Treasury Yield Curve (+147bp) - 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 - Conference Board US Leading Index (y/y chg)



Weekly Market Recap - 05/21/21

Market Data

Equity Indices	Close	1 Week	MTD	YTD	1 Year	3y Cum.
S&P 500	4,159	-0.4%	-0.5%	11.3%	43.2%	60.8%
Dow Jones Indus. Avg.	34,084	-0.4%	1.2%	12.6%	42.7%	46.4%
NASDAQ	13,536	0.3%	-3.4%	4.8%	46.2%	87.5%
S&P Midcap 400	2,690	-1.2%	-1.2%	17.1%	61.0%	43.9%
Russell 2000 (Small Cap)	2,215	-0.4%	-2.2%	12.5%	66.2%	40.8%
MSCI EAFE (Int'l Dev Mkt Eq)	2,315	1.1%	2.4%	9.4%	43.5%	23.7%
MSCI EM (Emerging Mkt Eq)	1,330	1.7%	-1.2%	3.6%	46.5%	27.0%

Fixed Income	Yield	1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	1.62%	0.0%	0.1%	-5.9%	-7.3%	19.0%
U.S. Bonds (Aggregate)	1.53%	0.0%	-0.1%	-2.7%	-0.5%	16.9%
Global Bonds	1.16%	0.3%	0.5%	-2.8%	4.7%	14.3%
U.S. Munis	1.05%	0.1%	0.1%	0.6%	5.0%	16.6%
U.S. Investment Grade Corp	2.16%	0.0%	0.1%	-3.5%	3.8%	23.2%
U.S. High Yield Corporates	4.18%	-0.1%	-0.1%	1.8%	16.7%	22.3%

US Interest Rates	5/21/21	5/14/21	4/30/21	12/31/20	5/21/20	5/21/18
2y Treasuries	0.15	0.15	0.16	0.12	0.17	2.57
10y Treasuries	1.62	1.63	1.63	0.91	0.67	3.06
30y Treasuries	2.32	2.34	2.30	1.64	1.39	3.20
3m LIBOR (USD)	0.15	0.16	0.18	0.24	0.36	2.33
30y Fixed Mortgage	3.00	2.94	2.98	2.67	3.24	4.61
Prime Rate	3.25	3.25	3.25	3.25	3.25	4.75

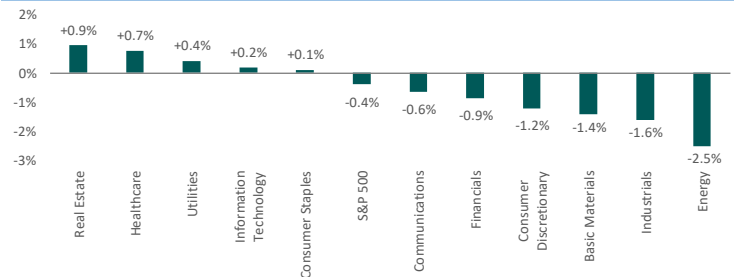
Commodity Prices	5/21/21	5/14/21	4/30/21	12/31/20	5/21/20	5/21/18
Oil (WTI)	63.58	65.37	63.58	48.52	33.92	49.80
Gasoline	3.04	3.04	2.90	2.25	1.94	2.93
Natural Gas	2.91	2.96	2.93	2.54	1.71	3.24
Gold	1,881	1,843	1,769	1,898	1,727	1,293

Currency Crosses	5/21/21	5/14/21	4/30/21	12/31/20	5/21/20	5/21/18
\$ per £	1.42	1.41	1.38	1.37	1.22	1.34
\$ per €	1.22	1.21	1.20	1.22	1.10	1.18
¥ per \$	109.0	109.4	109.3	103.3	107.6	111.1
\$ per Bitcoin	35,251	49,194	56,814	28,996	9,057	8,407

Macroeconomic Data	Value	Date
Fed Funds Target (Floor)	0.0%	05/21/21
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

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



YTD Sector Total Returns as of 05/21/21

