

Market Commentary

Weekly Recap:

Large cap technology stocks led the market higher last week thanks in large part to stellar earnings results from tech bellwethers like Alphabet (Google) and Microsoft. The rally pushed the Dow, S&P 500, and Nasdaq Composite to fresh record highs on the final day of October, with the S&P and Nasdaq both delivering a return of over 7% for the month. Cyclical lags somewhat as inflation concerns eased and energy prices edged lower. Meanwhile, international stocks were mixed, with developed markets close to flat while emerging markets were once again pulled lower by a selloff in Chinese equities.

Growth stocks also got a boost from falling Treasury yields last week. The curve flattened considerably, with 2y yields hitting 50bp (+5bp on the week) while 10y yields fell 8bp and 30y yields were lower by 14bp. Fed funds futures markets are now pricing in a >75% chance of a rate hike occurring by June of 2022, much earlier than current consensus expectations from sell side economists.

Not all of the news was good last week, however. Q3 GDP came in lower than expected at +2.0% annualized, while Apple and Amazon both missed consensus earnings estimates, citing severe supply chain constraints that impacted revenues as well as input cost inflation that put pressure on operating margins. Starbucks also cited a 600bp impact to operating margins from rising wages and other inflationary pressures. As a result of these and other reports, sell side analysts have already begun lowering their earnings estimates for the balance of the year.

Albion's "Four Pillars":

***Economy & Earnings** - US GDP growth slowed to +2.0% annualized in Q3 as supply constraints and a surge in covid-19 case counts impacted economic activity. Despite the slower growth, EPS for the S&P 500 is still expected to rise to an all-time calendar year record in 2021.

***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-than-historical equity returns may be justified in the context of ultra-low yields on alternatives like bonds and cash.

***Interest Rates** - Rates remain very low by historical standards, supporting equity valuations and lowering corporate borrowing costs.

***Inflation** - Inflation is currently high on a y/y basis as the economy lags the early months of the pandemic, but most of the drivers appear transitory. The Fed has communicated greater tolerance for short periods of above-target inflation, but longer-term inflation expectations remain well anchored.

Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
S&P 500	4,596	1.3%	7.0%	24.0%	41.2%	84.1%
Dow Jones Indus. Avg.	35,730	0.4%	5.9%	18.8%	36.9%	56.7%
NASDAQ	15,448	2.7%	7.3%	20.9%	39.5%	125.9%
S&P Midcap 400	2,794	-0.1%	5.9%	22.3%	47.7%	63.8%
Russell 2000 (Small Cap)	2,297	0.3%	4.3%	17.2%	48.6%	61.6%
MSCI EAFE (Int'l Dev Mkt Eq)	2,336	-0.1%	2.5%	11.5%	34.1%	43.1%
MSCI EM (Emerging Mkt Eq)	1,265	-2.2%	1.0%	0.0%	15.6%	46.4%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	1.55%	0.7%	-0.4%	-4.6%	-5.1%	19.4%
U.S. Bonds (Aggregate)	1.66%	0.5%	-0.1%	-1.6%	-0.6%	17.3%
Global Bonds	1.27%	0.5%	0.3%	-3.8%	-0.8%	14.3%
U.S. Munis	1.21%	0.1%	-0.3%	0.5%	2.6%	16.0%
U.S. Investment Grade Corp	2.22%	0.8%	0.2%	-1.1%	2.0%	25.5%
U.S. High Yield Corporates	4.23%	0.1%	-0.1%	4.4%	10.5%	24.0%

US Interest Rates	Levels (%)					
	10/29/21	10/22/21	9/30/21	12/31/20	10/29/20	10/29/18
2y Treasuries	0.50	0.45	0.28	0.12	0.15	2.82
10y Treasuries	1.55	1.63	1.49	0.91	0.82	3.08
30y Treasuries	1.93	2.07	2.04	1.64	1.60	3.33
3m LIBOR (USD)	0.13	0.12	0.13	0.24	0.21	2.53
30y Fixed Mortgage	3.14	3.09	3.01	2.67	2.81	4.86
Prime Rate	3.25	3.25	3.25	3.25	3.25	5.25

Commodity Prices	Levels					
	10/29/21	10/22/21	9/30/21	12/31/20	10/29/20	10/29/18
Oil (WTI)	83.57	83.76	75.03	48.52	36.17	67.04
Gasoline	3.40	3.38	3.19	2.25	2.14	2.81
Natural Gas	5.43	5.28	5.87	2.54	3.30	3.19
Gold	1,783	1,793	1,757	1,898	1,868	1,229

Currency Crosses	Levels					
	10/29/21	10/22/21	9/30/21	12/31/20	10/29/20	10/29/18
\$ per £	1.37	1.38	1.35	1.37	1.29	1.28
\$ per €	1.16	1.16	1.16	1.22	1.17	1.14
¥ per \$	114.0	113.5	111.3	103.3	104.6	112.4
\$ per Bitcoin	62,396	60,726	43,436	28,996	13,487	6,243

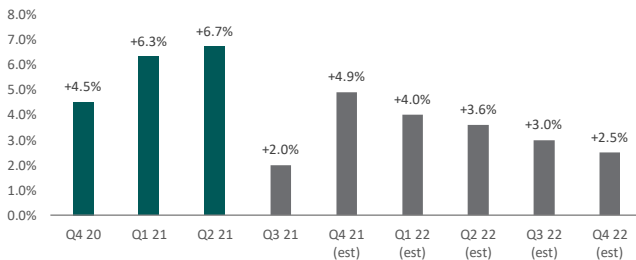
Macroeconomic Data	Value	Date	Data Source:
Fed Funds Target (Floor)	0.0%	10/29/21	
Inflation (Core PCE Def)	3.6%	09/30/21	
Unemployment (U-3)	4.8%	09/30/21	
GDP Growth (Q/Q SAAR)	2.0%	09/30/21	
ISM Manufacturing PMI	61.1	09/30/21	
Consumer Confidence	109.8	10/29/21	

Albion's Dashboard of Key Leading Economic Indicators as of 10/29/21

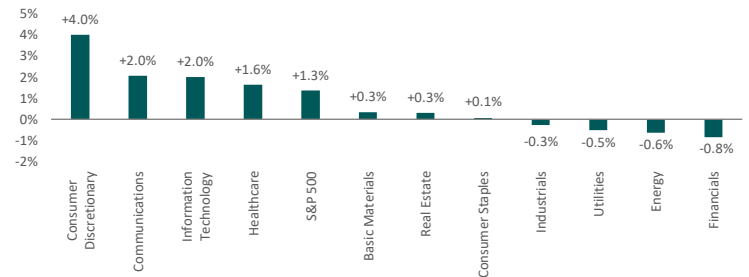
- Initial Jobless Claims 4wma (299k) - Stronger: weekly claims are at pandemic lows
- Conference Board LEI (+9.3%) - Stronger: 7 consecutive months of sequential improvement
- Building Permits (1,586k) - Steady: housing activity equal to pre-pandemic peak levels
- Corporate Bond Spreads (0.81%) - Steady: IG spreads remain near multi-decade tight
- Treasury Yield Curve (+106bp) - Steady: 2s10s curve stable after flattening in Q2
- Consumer Confidence (113.8) - Steady: stabilized in October as case counts declined
- Real Final Sales (+5.1%) - Weaker: pullback in Q3 on supply constraints and covid-19 surge

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

Chart of the Week - US GDP Growth



Sector Total Returns for the Week Ending 10/29/21



YTD Sector Total Returns as of 10/29/21

