



Wealth Advisors,
Investment Managers

Weekly Market Recap - 01/07/22

Market Commentary

Weekly Recap:

In a move that echoed the early days of 2021, markets got off to a rough start during the first week of 2022 as rising bond yields pushed discount rates higher for all risk assets.

The release of the December FOMC minutes provided a clearer window into the Fed's current thinking on inflation risks, and investors responded by pushing yields higher across the curve: 2y yields rose 13bp to 0.86% (a fresh pandemic high), 10y yields rose 25bp to 1.76% (also a new pandemic high), and 30y yields rose 22bp to 2.12% (still well off last year's high of 2.40%). See the Chart of the Week for a time series of 2y Treasuries.

Credit spreads were mostly stable last week, pushing the price declines in Treasuries through to corporate and municipal bonds as well.

In US equity markets, long-dated tech and other secular growth stocks were hit the hardest, sending the Nasdaq down 4.5% on the week. Cyclical fared much better, with the energy sector posting a +10.6% total return, resulting in smaller declines for the S&P and especially the Dow. Small caps and international stocks also finished lower on the week.

Oil prices rose thanks to supply disruptions related to events in Libya and Kazakhstan. OPEC+ announced an agreement to increase output that was in line with expectations.

Albion's "Four Pillars":

***Economy & Earnings** - US GDP growth slowed to +2.3% 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.

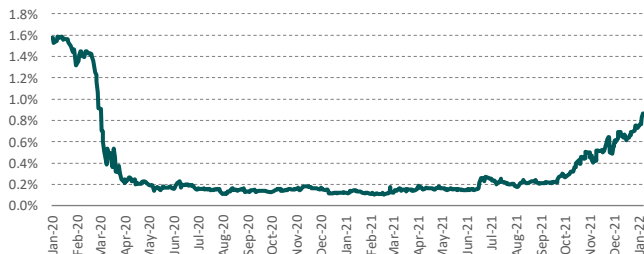
***Inflation** - Inflation is currently high on a y/y basis as supply chain disruptions and labor shortages have impacted input costs for many businesses. The Fed recently indicated that its average inflation-targeting objective has been met, and it may consider accelerating asset purchase tapering as a precursor to raising short-term interest rates in order to tame inflationary pressures.

Albion's Dashboard of Key Leading Economic Indicators as of 01/07/22

- Initial Jobless Claims 4wma (205k) - Stronger: weekly claims are at pandemic lows
- Conference Board LEI (+9.8%) - Stronger: 9 consecutive months of sequential improvement
- Building Permits (1,717k) - Steady: housing activity is now above pre-pandemic levels
- Corporate Bond Spreads (0.87%) - Steady: IG spreads stable after initial omicron-led volatility
- Treasury Yield Curve (+90bp) - Weaker: 2s10s curve flattened on omicron & Powell pivot
- Consumer Confidence (115.8) - Steady: stable through Q4 after delta-driven summer pullback
- 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 - 2y US Treasury Yields



Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
S&P 500	4,677	-1.8%	-1.8%	-1.8%	24.7%	93.3%
Dow Jones Indus. Avg.	36,232	-0.2%	-0.2%	-0.2%	18.9%	64.4%
NASDAQ	14,936	-4.5%	-4.5%	-4.5%	15.0%	124.7%
S&P Midcap 400	2,793	-1.7%	-1.7%	-1.7%	16.8%	71.8%
Russell 2000 (Small Cap)	2,180	-2.9%	-2.9%	-2.9%	5.0%	61.1%
MSCI EAFE (Int'l Dev Mkt Eq)	2,329	-0.3%	-0.3%	-0.3%	9.1%	45.2%
MSCI EM (Emerging Mkt Eq)	1,226	-0.5%	-0.5%	-0.5%	-5.0%	35.6%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	1.76%	-2.4%	-2.4%	-2.4%	-4.5%	13.2%
U.S. Bonds (Aggregate)	1.98%	-1.5%	-1.5%	-1.5%	-2.2%	13.1%
Global Bonds	1.45%	-1.2%	-1.2%	-1.2%	-5.4%	9.3%
U.S. Munis	1.26%	-0.7%	-0.7%	-0.7%	0.8%	13.6%
U.S. Investment Grade Corp	2.55%	-1.9%	-1.9%	-1.9%	-1.5%	21.8%
U.S. High Yield Corporates	4.60%	-0.9%	-0.9%	-0.9%	4.1%	25.2%

US Interest Rates	Levels (%)					
	1/7/22	12/31/21	12/31/21	12/31/21	1/7/21	1/7/19
2y Treasuries	0.86	0.73	0.73	0.73	0.14	2.54
10y Treasuries	1.76	1.51	1.51	1.51	1.08	2.70
30y Treasuries	2.12	1.90	1.90	1.90	1.85	2.99
3m LIBOR (USD)	0.24	0.21	0.21	0.21	0.22	2.80
30y Fixed Mortgage	3.22	3.11	3.11	3.11	2.65	4.51
Prime Rate	3.25	3.25	3.25	3.25	3.25	5.50

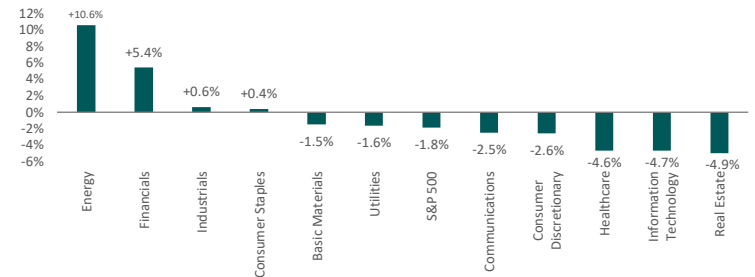
Commodity Prices	Levels					
	1/7/22	12/31/21	12/31/21	12/31/21	1/7/21	1/7/19
Oil (WTI)	78.90	75.21	75.21	75.21	50.83	48.52
Gasoline	3.30	3.29	3.29	3.29	2.30	2.23
Natural Gas	3.92	3.73	3.73	3.73	2.73	2.94
Gold	1,797	1,829	1,829	1,829	1,914	1,289

Currency Crosses	Levels					
	1/7/22	12/31/21	12/31/21	12/31/21	1/7/21	1/7/19
\$ per £	1.36	1.35	1.35	1.35	1.36	1.28
\$ per €	1.14	1.14	1.14	1.14	1.23	1.15
¥ per \$	115.6	115.1	115.1	115.1	103.8	108.7
\$ per Bitcoin	41,882	46,334	46,334	46,334	39,733	4,005

Macroeconomic Data	Value	Date
Inflation (Core PCE Def)	4.7%	11/30/21
Unemployment (U-3)	3.9%	12/31/21
GDP Growth (Q/Q SAAR)	2.3%	09/30/21
ISM Manufacturing PMI	58.7	12/31/21
Consumer Confidence	115.8	12/31/21

Data Source:
Bloomberg, FactSet

Sector Total Returns for the Week Ending 01/07/22



YTD Sector Total Returns as of 01/07/22

