



Wealth Advisors,
Investment Managers

Weekly Market Recap - 02/11/22

Market Commentary

Weekly Recap:

US large caps moved lower last week in the wake of higher-than-expected inflation data, with tech and other growth sectors underperforming while cyclicals (especially energy) held up better. Small and midcap benchmarks managed to finish the week in the green, as did international stocks.

Rates continued to move higher last week, particularly in the front end of the curve as 2y yields rose 19bp while 10y and 30y yields were up just 3bp. Investors recalibrated their bets regarding the forward path of Fed policy, with the chance of a 50bp hike at the upcoming March FOMC meeting rising from ~30% pre-CPI print to roughly 60% afterwards. By the end of the week, investors were pricing in between six and seven 25bp hikes by year-end.

Commodity prices edged higher last week, with oil surging on Friday as the situation in Ukraine began to look increasingly tenuous. West Texas Intermediate finished the week at \$93.10/barrel, its highest level since September of 2014.

Economic data was mixed last week. CPI rose +0.6% sequentially which was above consensus expectations, as core CPI reached +6.0% y/y while headline CPI printed at +7.5%. Initial jobless claims fell for the 3rd consecutive week as the omicron-driven uptick continued to fade. And finally, the University of Michigan Consumer Sentiment index came in much lower than expected in the preliminary February reading, as the current conditions component fell nearly 5 points while future expectations were down nearly 7 points. Encouragingly though, long term (5-10y) inflation expectations were unchanged from January at +3.1%.

Albion's "Four Pillars":

***Economy & Earnings** - US GDP growth rebounded to +6.9% annualized in Q4, and was +5.7% for 2021 as a whole. EPS for the S&P 500 is expected to rise to an all-time record in 2021, as operating margins remain above long-run historical norms despite inflationary pressures.

***Equity Valuation** - The S&P 500's forward P/E of 20x 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 lower-than-historical yields on bonds and cash.

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

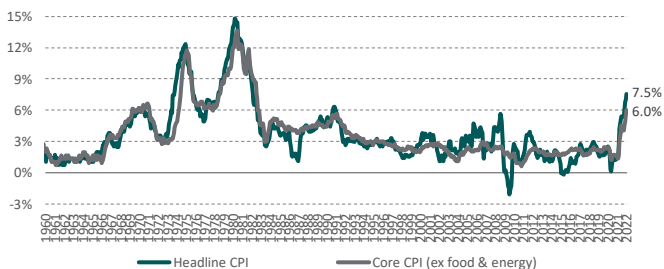
***Inflation** - Inflation is currently high on a y/y basis as supply chain disruptions and labor shortages have impacted input costs for many businesses. The Fed recently indicated that its average inflation-targeting objective has been met, and is accelerating asset purchase tapering as a precursor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

Albion's Dashboard of Key Leading Economic Indicators as of 02/11/22

- Initial Jobless Claims 4wma (253k) - Weaker: claims have ticked up in recent weeks
- Conference Board LEI (+8.5%) - Stronger: 10 consecutive months of sequential improvement
- Building Permits (1,885k) - Stronger: housing activity is now above pre-pandemic levels
- Corporate Bond Spreads (1.01%) - Weaker: IG spreads wider as equities have moved lower
- Treasury Yield Curve (+44bp) - Weaker: 2s10s curve has flattened on hawkish Fed pivot
- Consumer Confidence (113.8) - Steady: stable through Q4 after delta-driven summer pullback
- Real Final Sales (+4.7%) - Steady: rebounded in Q4 after a sharp pullback in Q3

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

Chart of the Week - Headline and Core CPI (y/y change)



Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
S&P 500	4,419	-1.8%	-2.1%	-7.2%	14.4%	71.7%
Dow Jones Indus. Avg.	34,738	-1.0%	-1.1%	-4.3%	12.5%	47.9%
NASDAQ	13,791	-2.2%	-3.1%	-11.8%	-1.0%	93.6%
S&P Midcap 400	2,647	0.9%	0.5%	-6.7%	5.7%	48.7%
Russell 2000 (Small Cap)	2,030	1.4%	0.1%	-9.5%	-10.3%	38.8%
MSCI EAFE (Int'l Dev Mkt Eq)	2,279	1.4%	2.6%	-2.4%	5.4%	37.8%
MSCI EM (Emerging Mkt Eq)	1,241	1.6%	2.7%	0.8%	-11.0%	29.6%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	1.94%	0.0%	-1.3%	-3.7%	-5.2%	11.2%
U.S. Bonds (Aggregate)	2.36%	-0.4%	-1.3%	-3.4%	-4.0%	9.9%
Global Bonds	1.78%	-0.7%	-1.0%	-3.0%	-6.6%	7.1%
U.S. Munis	1.85%	-0.9%	-0.4%	-3.2%	-2.7%	10.1%
U.S. Investment Grade Corp	3.01%	-0.4%	-1.6%	-4.9%	-4.5%	15.5%
U.S. High Yield Corporates	5.76%	-1.0%	-1.3%	-4.0%	-0.3%	17.9%

US Interest Rates	Levels (%)					
	2/11/22	2/4/22	1/31/22	12/31/21	2/11/21	2/11/19
2y Treasuries	1.50	1.31	1.18	0.73	0.11	2.49
10y Treasuries	1.94	1.91	1.78	1.51	1.16	2.65
30y Treasuries	2.24	2.21	2.11	1.90	1.95	2.99
SOFR (USD)	0.05	0.05	0.05	0.05	0.06	2.40
30y Fixed Mortgage	3.69	3.55	3.55	3.11	2.73	4.41
Prime Rate	3.25	3.25	3.25	3.25	3.25	5.50

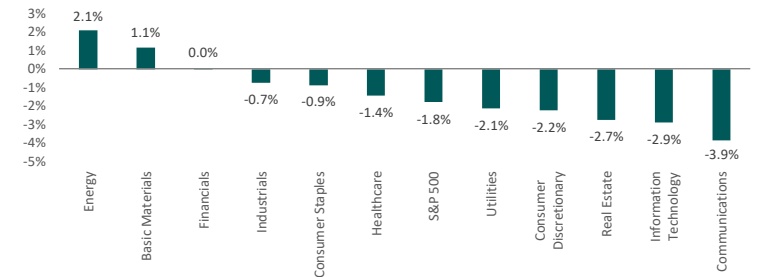
Commodity Prices	Levels					
	2/11/22	2/4/22	1/31/22	12/31/21	2/11/21	2/11/19
Oil (WTI)	93.10	92.31	88.15	75.21	58.24	52.41
Gasoline	3.48	3.44	3.38	3.29	2.50	2.27
Natural Gas	3.94	4.57	4.87	3.73	2.87	2.64
Gold	1,859	1,808	1,797	1,829	1,826	1,308

Currency Crosses	Levels					
	2/11/22	2/4/22	1/31/22	12/31/21	2/11/21	2/11/19
\$ per €	1.36	1.35	1.34	1.35	1.38	1.29
\$ per ¥	1.14	1.14	1.12	1.14	1.21	1.13
¥ per \$	115.4	115.3	115.1	115.1	104.8	110.4
\$ per Bitcoin	42,563	40,647	38,438	46,334	46,932	3,538

Macroeconomic Data	Value		Date
	Fed Funds Target (Floor)	0.0%	0.0%
Inflation (Core PCE Def)	4.9%	4.9%	12/31/21
Unemployment (U-3)	4.0%	4.0%	01/31/22
GDP Growth (Q/Q SAAR)	6.9%	6.9%	12/31/21
ISM Manufacturing PMI	57.6	57.6	01/31/22
Consumer Confidence	113.8	113.8	01/31/22

Data Source:
Bloomberg, FactSet

Sector Total Returns for the Week Ending 02/11/22



YTD Sector Total Returns as of 02/11/22

