



Market Commentary

Weekly Recap:

Stocks were lower last week as the Russian war in Ukraine intensified. European stocks were hit especially hard, sending MSCI's EAFE developed market international index down 6.5% on the week. In the US, investors scrambled to increase their exposure to energy stocks and defensive sectors, while selling tech and most cyclicals besides energy.

Bond markets reflected the sharp increase in risk aversion, with Treasury yields falling across the curve while credit spreads widened. The belly of the curve saw the most dramatic move, with 10y yields falling 23bp on the week, 2y yields finishing lower by 9bp, and 30y yields falling 11bp. Meanwhile, investment grade credit spreads moved wider by 9bp to reach 122bp, while high yields spreads were 23bp wider on the week, finishing at 376bp. See the Chart of the Day for a time series of credit spreads.

Commodity prices moved sharply higher last week. WTI finished above \$115/barrel for the first time since September of 2008 (oil spiked briefly in the immediate aftermath of "Lehman weekend"), while the S&P GSCI Non-Energy Commodity Index closed at a new all-time high on Friday.

In economic news, nonfarm payrolls (+678k) significantly exceeded consensus expectations, while the unemployment rate fell to 3.8%. In a sign that inflation pressures may be abating slightly (at least prior to any economic fallout from the war in Ukraine), average hourly earnings were flat sequentially in February and fell to +5.1% y/y.

Albion's "Four Pillars":

*Economy & Earnings - US GDP growth rebounded to +7.0% annualized in Q4, and was +5.7% for 2021 overall. EPS for the S&P 500 rose to an all-time record in 2021 on robust corporate operating margins. Consensus estimates for 2022 US GDP stand at +3.6% as the pace of growth normalizes.

*Equity Valuation - The S&P 500's forward P/E of 19x 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.

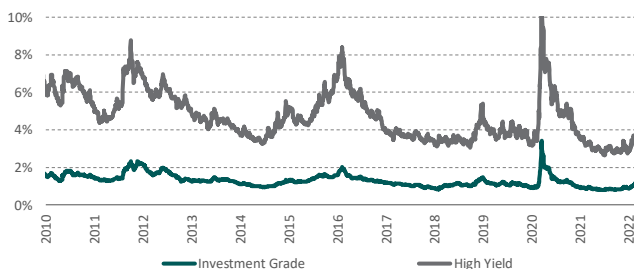
*Inflation - Inflation is currently high on a y/y basis as supply chain disruptions and labor shortages have impacted input costs for many businesses. The Fed recently indicated that its average inflation-targeting objective has been met, and is accelerating asset purchase tapering as a precursor to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

Albion's Dashboard of Key Leading Economic Indicators as of 03/04/22

- Initial Jobless Claims 4wma (231k) - Steady: claims have normalized close to pre-pandemic levels
- Conference Board LEI (+7.3%) - Weaker: declined sequentially in January after a strong 2021
- Building Permits (1,895k) - Stronger: housing activity is now above pre-pandemic levels
- Corporate Bond Spreads (1.22%) - Weaker: IG spreads wider as equities have moved lower
- Treasury Yield Curve (+25bp) - Weaker: 2s10s curve has flattened on hawkish Fed pivot
- Consumer Confidence (110.5) - Weaker: declining in early 2022 on inflation and omicron
- 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 - US Investment Grade & High Yield Credit Spreads



Weekly Market Recap - 03/04/22

Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
S&P 500	4,329	-1.2%	-1.0%	-8.9%	16.5%	63.2%
Dow Jones Indus. Avg.	33,615	-1.2%	-0.8%	-7.2%	10.7%	38.9%
NASDAQ	13,313	-2.8%	-3.2%	-14.8%	5.3%	80.2%
S&P Midcap 400	2,615	-1.7%	-1.7%	-7.8%	8.0%	42.9%
Russell 2000 (Small Cap)	2,001	-1.9%	-2.3%	-10.7%	-5.8%	31.9%
MSCI EAFE (Int'l Dev Mkt Eq)	2,035	-6.5%	-6.6%	-12.6%	-4.4%	18.3%
MSCI EM (Emerging Mkt Eq)	1,145	-2.3%	-2.2%	-6.9%	-12.9%	17.5%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	1.73%	2.2%	0.9%	-1.9%	0.0%	13.7%
U.S. Bonds (Aggregate)	2.32%	0.9%	0.2%	-3.1%	-1.8%	10.4%
Global Bonds	1.70%	0.2%	-0.2%	-3.4%	-5.1%	6.7%
U.S. Munis	1.91%	-0.2%	-0.2%	-3.3%	-1.1%	9.7%
U.S. Investment Grade Corp	3.12%	0.8%	-0.1%	-5.4%	-2.3%	14.7%
U.S. High Yield Corporates	5.77%	-0.2%	-0.4%	-4.1%	0.3%	16.3%

US Interest Rates	Levels (%)					
	3/4/22	2/25/22	2/28/22	12/31/21	3/4/21	3/4/19
2y Treasuries	1.48	1.57	1.43	0.73	0.14	2.54
10y Treasuries	1.73	1.96	1.83	1.51	1.56	2.72
30y Treasuries	2.16	2.27	2.16	1.90	2.32	3.09
SOFR (USD)	0.05	0.05	0.05	0.05	0.02	2.38
30y Fixed Mortgage	3.76	3.89	3.89	3.11	3.02	4.35
Prime Rate	3.25	3.25	3.25	3.25	3.25	5.50

Commodity Prices	Levels					
	3/4/22	2/25/22	2/28/22	12/31/21	3/4/21	3/4/19
Oil (WTI)	115.68	91.59	95.72	75.21	63.83	56.59
Gasoline	3.92	3.60	3.62	3.29	2.75	2.43
Natural Gas	5.02	4.47	4.40	3.73	2.75	2.86
Gold	1,971	1,889	1,909	1,829	1,698	1,287

Currency Crosses	Levels					
	3/4/22	2/25/22	2/28/22	12/31/21	3/4/21	3/4/19
\$ per E	1.32	1.34	1.34	1.35	1.39	1.32
\$ per €	1.09	1.13	1.12	1.14	1.20	1.13
¥ per \$	114.8	115.6	115.0	115.1	108.0	111.8
\$ per Bitcoin	39,394	38,995	41,655	46,334	47,919	3,538

Macroeconomic Data	Value	Date
Fed Funds Target (Floor)	0.0%	03/04/22
Inflation (Core PCE Def)	5.2%	01/31/22
Unemployment (U-3)	3.8%	02/28/22
GDP Growth (Q/Q SAAR)	7.0%	12/31/21
ISM Manufacturing PMI	58.6	02/28/22
Consumer Confidence	110.5	02/28/22

Data Source:
Bloomberg, FactSet

Sector Total Returns for the Week Ending 03/04/22



YTD Sector Total Returns as of 03/04/22

