



**ALBION  
FINANCIAL  
GROUP**

Wealth Advisors,  
Investment Managers

## Market Commentary

### Weekly Recap:

Most US stocks were lower again last week as the Russian war in Ukraine ground on. Once again, energy was the only sector in the S&P 500 to finish higher on the week. Interestingly, European stocks fared somewhat better in the latter half of last week, rebounding significantly after reaching YTD lows on Tuesday. Emerging market benchmarks were dragged lower by weakness in Chinese equities, which closed at 4+ year lows on Friday.

The selloff in bonds continued as investors lost hope that a silver lining of the war in Ukraine might be a less hawkish Fed. 2y Treasury yields rose 27bp, 10y yield gained 26bp to a fresh pandemic high of 1.99%, and 30y yields rose 19bp. After expectations for 2022 rate hikes fell in the days following the invasion, Fed Funds Futures markets are now pricing in a total of seven 25bp hikes by year end. See the Chart of the Week for a time series of 2022 rate hike expectations.

Last week brought some welcome relief in commodity prices, particularly oil which eased lower despite a US ban on Russian oil imports.

In economic news, the University of Michigan consumer sentiment gauge weakened in preliminary March data, with 1y forward inflation expectations rising to +5.4% while longer term (5-10y) expectations remains anchored at +3.0%.

Meanwhile, CPI data showed strong price gains in February:

\* Headline CPI rose 0.8% sequentially to reach +7.9% y/y

\* Core CPI (ex food and energy) rose 0.5% sequentially to +6.4% y/y

### Albion's "Four Pillars":

\*Economy & Earnings - US GDP growth was +5.7% in 2021 while EPS for the S&P 500 rose to an all-time record 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 18.5x 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 low by historical standards but have risen across the curve in early 2022 as the market prices in a number of Fed Funds rate hikes. Fed Fund Futures markets are currently pricing in seven 25bp rate hikes in 2022, with an implied Fed Funds target rate (floor) of 1.75% by year end.

\*Inflation - Inflation is currently high on a y/y basis as supply chain disruptions, labor shortages, and rising energy prices have impacted input costs for many businesses. The Fed is prepared to raise overnight interest rates in order to tame inflationary pressures.

### Albion's Dashboard of Key Leading Economic Indicators as of 03/11/22

- 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 (1.32%) - Weaker: IG spreads wider as equities have moved lower
- Treasury Yield Curve (+24bp) - Weaker: 2s10s curve has flattened on hawkish Fed pivot
- Consumer Confidence (110.5) - Weaker: declining in early 2022 on inflation, omicron, and war
- 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 - Fed Fund Futures: 2022 Rate Hike Expectations



## Weekly Market Recap - 03/11/22

### Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
S&P 500	4,204	-2.8%	-3.8%	-11.5%	8.2%	59.0%
Dow Jones Indus. Avg.	32,944	-1.9%	-2.7%	-8.9%	3.3%	37.1%
NASDAQ	12,844	-3.5%	-6.6%	-17.8%	-3.5%	74.3%
S&P Midcap 400	2,571	-1.7%	-3.4%	-9.3%	-0.7%	42.7%
Russell 2000 (Small Cap)	1,980	-1.0%	-3.3%	-11.7%	-14.5%	32.7%
MSCI EAFE (Int'l Dev Mkt Eq)	2,044	0.6%	-6.0%	-12.1%	-5.4%	20.6%
MSCI EM (Emerging Mkt Eq)	1,086	-5.1%	-7.2%	-11.7%	-18.0%	12.8%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	1.99%	-2.3%	-1.4%	-4.2%	-2.4%	10.3%
U.S. Bonds (Aggregate)	2.60%	-1.8%	-1.6%	-4.8%	-3.5%	8.0%
Global Bonds	1.93%	-1.9%	-2.1%	-5.3%	-6.7%	4.4%
U.S. Munis	2.15%	-1.1%	-1.3%	-4.4%	-2.8%	8.0%
U.S. Investment Grade Corp	3.50%	-2.7%	-2.8%	-8.0%	-4.8%	11.2%
U.S. High Yield Corporates	6.19%	-1.5%	-1.9%	-5.6%	-1.2%	14.9%

US Interest Rates	Levels (%)					
	3/11/22	3/4/22	2/28/22	12/31/21	3/11/21	3/11/19
2y Treasuries	1.75	1.48	1.43	0.73	0.14	2.48
10y Treasuries	1.99	1.73	1.83	1.51	1.54	2.64
30y Treasuries	2.35	2.16	2.16	1.90	2.29	3.03
SOFR (USD)	0.05	0.05	0.05	0.05	0.01	2.38
30y Fixed Mortgage	3.85	3.76	3.89	3.11	3.05	4.41
Prime Rate	3.25	3.25	3.25	3.25	3.25	5.50

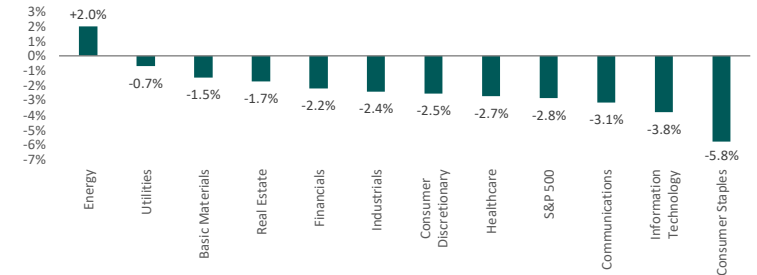
Commodity Prices	Levels					
	3/11/22	3/4/22	2/28/22	12/31/21	3/11/21	3/11/19
Oil (WTI)	109.33	115.68	95.72	75.21	66.02	56.79
Gasoline	4.33	3.92	3.62	3.29	2.84	2.49
Natural Gas	4.73	5.02	4.40	3.73	2.67	2.77
Gold	1,988	1,971	1,909	1,829	1,723	1,293

Currency Crosses	Levels					
	3/11/22	3/4/22	2/28/22	12/31/21	3/11/21	3/11/19
\$ per E	1.30	1.32	1.34	1.35	1.40	1.32
\$ per €	1.09	1.09	1.12	1.14	1.20	1.12
¥ per \$	117.3	114.8	115.0	115.1	108.5	111.2
\$ per Bitcoin	38,861	39,394	41,655	46,334	57,624	3,848

Macroeconomic Data	Value		Date
Fed Funds Target (Floor)	0.0%		03/11/22
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 03/11/22



### YTD Sector Total Returns as of 03/11/22

