



Wealth Advisors,  
Investment Managers

# Weekly Market Recap - 07/01/22

## Market Commentary

### Weekly Recap:

Recession fears came to the fore last week, causing Treasuries to rally while equity prices fell. Technology and other growth stocks faced the strongest selling pressure, while traditional defensives like utilities, healthcare, and staples registered small gains on safe haven buying. Energy stocks rallied on modest gains in oil prices.

Treasury yields fell across the curve, particularly in the front end and belly. 2y yields were down 23bp and 10y yields dropped 25bp as everything inside of the 15y point on the curve fell below 3%. Longer yields fell as well but to a lesser degree, keeping the 20y to 30y portion of the curve solidly north of 3% for the time being.

Investment grade credit spreads continued their gradual push wider last week, resulting in smaller price gains for munis and corporates. Lower quality spreads bolted wider, pushing YTD returns for high yield corporate bonds below the YTD return for investment grade corporates for the first time this year. See the Chart of the Day for a time series of relative performance in US corporates (IG minus HY).

Most economic news released last week continued to point towards a slowdown in growth. Manufacturing surveys from the Dallas and Richmond Feds both fell further into contraction territory, the Conference Board's Consumer Confidence Index fell below 100 for the first time since February of last year, weekly jobless claims ticked higher, and growth in personal spending slowed in May. There were a few bright spots: durable goods orders exceeded expectations in May, while national surveys of manufacturing activity from S&P Global and ISM remained in expansion territory.

### Albion's "Four Pillars":

**\*Economy & Earnings** - Annualized US GDP growth fell to -1.6% in Q1 on headwinds from trade, private investment, and government spending. Real time data suggest Q2 GDP growth will be lower than the current consensus of +2.6%. Meanwhile, corporate operating margins remained robust in Q1, but many companies have warned that inflation will pressure margins in Q2 and beyond.

**\*Valuation** - The S&P 500's forward P/E of 16x is slightly above the long run average, and more predictive valuation metrics like CAPE, Tobin's Q, and the Buffett Indicator (Mkt Cap / GDP) suggest that compound annual returns over the next decade are likely to be in the single digits. That said, many growth stock P/E's have reached multi-year lows, suggesting future returns in some sectors could be above average.

**\*Interest Rates** - Rates have risen across the curve in 2022 in response to a shift in monetary policy. Fed Fund Futures markets are pricing in a total of 13 25bp rate hikes in 2022, with an implied Fed Funds target rate floor of 3.25% by year end.

**\*Inflation** - Inflation is at 40yr highs as supply chain disruptions, labor shortages, and rising energy prices have impacted input costs for many businesses. The Fed has begun raising overnight interest rates in order to tame inflationary pressures.

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

- Initial Jobless Claims (232k) - Weaker: claims have ticked higher during the Spring of 2022
- Conference Board LEI (+3.0%) - Weaker: has declined YTD through May 2022
- Building Permits (1.695k) - Weaker: declined sharply in May on higher mortgage rates
- Corporate Bond Spreads (1.43%) - Weaker: IG spreads have moved wider on inflation/recession fears
- Treasury Yield Curve (+5bp) - Weaker: 2s10s curve flattened dramatically following May CPI print
- Consumer Confidence (98.7) - Weaker: declined in H1 2022 on higher inflation and recession concerns
- Real Final Sales (+2.0%) - Steady: solid growth in Q1 '22 despite soft overall GDP

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

### Chart of the Week - Relative YTD Performance in US Corporate Bonds: IG minus HY



## Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
S&P 500	3,785	-2.2%	1.1%	-19.1%	-10.1%	35.7%
Dow Jones Indus. Avg.	30,775	-1.3%	1.0%	-13.5%	-8.5%	24.1%
NASDAQ	11,029	-4.1%	0.9%	-28.6%	-22.8%	40.9%
S&P Midcap 400	2,296	-1.6%	1.2%	-18.6%	-14.3%	23.1%
Russell 2000 (Small Cap)	1,728	-2.1%	1.2%	-22.5%	-24.9%	14.3%
MSCI EAFE (Int'l Dev Mkt Eq)	1,832	-2.2%	-0.8%	-19.9%	-18.1%	3.4%
MSCI EM (Emerging Mkt Eq)	993	-1.5%	-0.8%	-18.1%	-25.2%	1.1%
MSCI World	2,546	-2.2%	0.5%	-20.1%	-14.2%	22.4%
S&P Global 1200	2,827	-2.1%	0.4%	-18.9%	-13.3%	24.2%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	2.88%	2.0%	0.9%	-10.9%	-10.3%	-3.5%
U.S. Bonds (Aggregate)	3.62%	1.3%	0.6%	-9.8%	-9.7%	-2.1%
Global Bonds	2.91%	0.5%	0.5%	-13.5%	-14.8%	-8.7%
U.S. Munis	3.17%	0.7%	0.4%	-8.7%	-8.3%	-0.2%
U.S. Investment Grade Corp	4.62%	0.8%	0.6%	-13.9%	-13.7%	-2.4%
U.S. High Yield Corporates	8.85%	-1.6%	0.2%	-14.0%	-12.8%	0.6%

US Interest Rates	Levels (%)					
	7/1/22	6/24/22	6/30/22	12/31/21	7/1/21	7/1/19
2y Treasuries	2.83	3.06	2.95	0.73	0.25	1.79
10y Treasuries	2.88	3.13	3.01	1.51	1.46	2.02
30y Treasuries	3.10	3.26	3.18	1.90	2.06	2.55
Fed Funds (Effective Rate)	1.58	1.58	1.58	0.07	0.10	2.39
SOFR (USD)	1.50	1.46	1.50	0.05	0.05	2.42
30y Fixed Mortgage	5.70	5.81	5.70	3.11	2.98	3.73

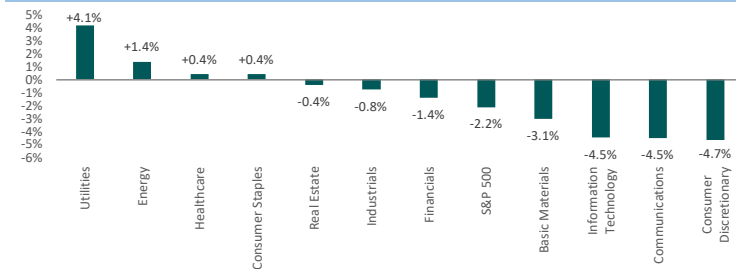
Commodity Prices	Levels					
	7/1/22	6/24/22	6/30/22	12/31/21	7/1/21	7/1/19
Oil (WTI)	108.43	107.62	105.76	75.21	75.23	59.09
Gasoline	4.82	4.91	4.84	3.29	3.13	2.73
Natural Gas	5.73	6.22	5.42	3.73	3.66	2.27
Gold	1,811	1,827	1,807	1,829	1,777	1,384

Currency Crosses	Levels					
	7/1/22	6/24/22	6/30/22	12/31/21	7/1/21	7/1/19
\$ per £	1.21	1.23	1.22	1.35	1.38	1.26
\$ per €	1.04	1.06	1.05	1.14	1.19	1.13
¥ per \$	135.2	135.2	135.7	115.1	111.5	108.5
\$ per Bitcoin	19,407	21,184	18,731	46,334	33,422	10,482

Macroeconomic Data	Value	Date
Fed Funds Target (Floor)	1.50%	07/01/22
Inflation (Core PCE Deflator)	4.7%	05/31/22
Inflation (Headline CPI)	8.6%	05/31/22
Unemployment (U-3)	3.6%	05/31/22
GDP Growth (QoQ SAAR)	-1.6%	03/31/22
ISM Manufacturing PMI	53.0	06/30/22
Consumer Confidence	98.7	06/30/22

Data Sources:  
Bloomberg, FactSet

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



### YTD Sector Total Returns as of 07/01/22

