



Wealth Advisors,  
Investment Managers

# Weekly Market Recap - 07/15/22

## Market Commentary

### Weekly Recap:

Stocks drifted lower for most of last week on higher-than-expected inflation data and disappointing bank earnings, only to rally sharply on Friday following encouraging prints from several important economic data points.

Consumer (CPI) and Producer (PPI) inflation data both painted a similar picture of the ongoing divergence between headline and core inflation. Headline inflation continues to rise, driven by soaring food and energy costs. Meanwhile, core inflation has moderated over the past few months and appears to have already peaked. Headline CPI reached 9.1% on a y/y basis in June, the highest such print in the US in more than 40 years. See the Chart of the Week for a time series.

Despite these inflation headwinds, market participants were encouraged by a slew of positive economic data points released on Friday:

- \* Empire Manufacturing surged back to expansion territory at 11.1 for July
- \* Retail sales ex auto and gas was +0.7% in June, beating the +0.1% consensus
- \* Import prices ex petroleum fell by 0.4% in June
- \* U. of Michigan Consumer Sentiment rose to 51.1 in July, beating consensus of 50.0
- \* U. of Michigan 5-10 yr Inflation Expectations fell by 30bp to 2.8%

In the end, stocks finished modestly lower on the week, while bonds rallied. The inversion of the 2s10s yield curve deepened following the inflation print. Oil prices fell, while US gasoline prices continued to ease lower as well.

### 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 +2.4%. 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 14 25bp rate hikes in 2022, with an implied Fed Funds target rate floor of 3.50% by year end.

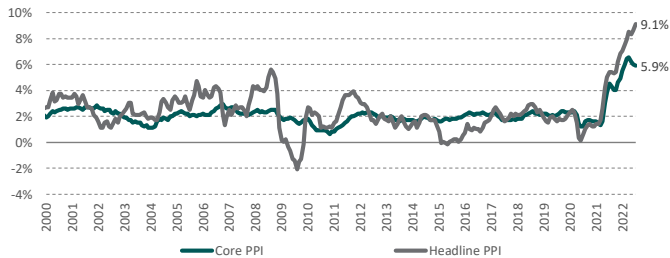
\*Inflation - Inflation is at 40yr highs as supply chain disruptions, labor shortages, and rising energy prices have impacted input costs for many businesses. The Fed has begun raising overnight interest rates in order to tame inflationary pressures.

### Albion's Dashboard of Key Leading Economic Indicators as of 07/15/22

- Initial Jobless Claims (236k) - 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 (1.40%) - Weaker: IG spreads have moved wider on inflation/recession fears
- Treasury Yield Curve (-20bp) - Weaker: 2s10s curve inverted more deeply on June 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 - Headline & Core CPI



## Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
S&P 500	3,863	-0.9%	2.1%	-18.3%	-10.1%	34.7%
Dow Jones Indus. Avg.	31,288	-0.2%	1.7%	-13.0%	-8.8%	21.9%
NASDAQ	11,452	-1.6%	3.9%	-26.5%	-20.7%	42.1%
S&P Midcap 400	2,304	-0.7%	1.6%	-18.3%	-11.8%	23.6%
Russell 2000 (Small Cap)	1,744	-1.4%	2.2%	-21.8%	-19.4%	15.9%
MSCI EAFE (Int'l Dev Mkt Eq)	1,817	-1.8%	1.5%	-20.5%	-18.9%	2.9%
MSCI EM (Emerging Mkt Eq)	962	-3.7%	-3.5%	-20.3%	-26.4%	-1.4%
MSCI World	2,569	-1.3%	0.9%	-19.8%	-14.3%	21.6%
S&P Global 1200	2,842	-1.4%	0.6%	-18.8%	-13.6%	23.0%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	2.92%	1.4%	0.7%	-11.0%	-11.8%	-3.1%
U.S. Bonds (Aggregate)	3.70%	0.9%	0.6%	-9.8%	-10.4%	-1.9%
Global Bonds	2.86%	0.1%	-0.6%	-14.4%	-16.3%	-9.5%
U.S. Munis	2.98%	0.3%	1.5%	-7.7%	-7.9%	0.5%
U.S. Investment Grade Corp	4.63%	1.1%	1.1%	-13.4%	-14.0%	-1.5%
U.S. High Yield Corporates	8.56%	0.3%	1.8%	-12.7%	-11.5%	2.1%

US Interest Rates	Levels (%)					
	7/15/22	7/8/22	6/30/22	12/31/21	7/15/21	7/15/19
2y Treasuries	3.12	3.10	2.95	0.73	0.22	1.83
10y Treasuries	2.92	3.08	3.01	1.51	1.30	2.09
30y Treasuries	3.08	3.24	3.18	1.90	1.92	2.61
Fed Funds (Effective Rate)	1.58	1.58	1.58	0.07	0.10	2.40
SOFR (USD)	1.54	1.53	1.50	0.05	0.05	2.46
30y Fixed Mortgage	5.51	5.30	5.70	3.11	2.88	3.75

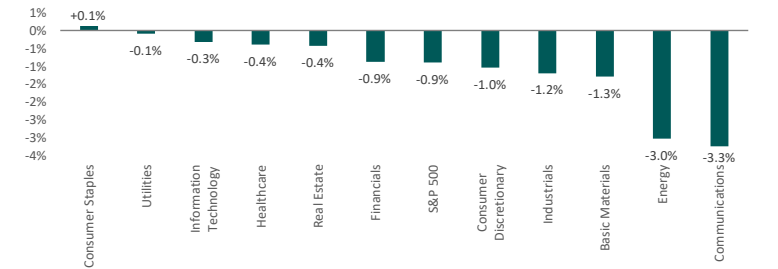
Commodity Prices	Levels					
	7/15/22	7/8/22	6/30/22	12/31/21	7/15/21	7/15/19
Oil (WTI)	97.59	104.79	105.76	75.21	71.65	59.58
Gasoline	4.55	4.70	4.84	3.29	3.16	2.79
Natural Gas	7.02	6.03	5.42	3.73	3.61	2.41
Gold	1,708	1,742	1,807	1,829	1,829	1,414

Currency Crosses	Levels					
	7/15/22	7/8/22	6/30/22	12/31/21	7/15/21	7/15/19
\$ per £	1.19	1.20	1.22	1.35	1.38	1.25
\$ per €	1.01	1.02	1.05	1.14	1.18	1.13
¥ per \$	138.6	136.1	135.7	115.1	109.8	107.9
\$ per Bitcoin	20,927	21,847	18,731	46,334	31,758	10,822

Macroeconomic Data	Value	Date
Fed Funds Target (Floor)	1.50%	07/15/22
Inflation (Core PCE Deflator)	4.7%	05/31/22
Inflation (Headline CPI)	9.1%	06/30/22
Unemployment (U-3)	3.6%	06/30/22
GDP Growth (Q/Q 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 07/15/22



### YTD Sector Total Returns as of 07/15/22

