



Wealth Advisors,
Investment Managers

Weekly Market Recap - 09/16/22

Market Commentary

Weekly Recap:

Markets got off to a strong start last week, with equities posting modest gains on Monday while rates were relatively calm. All of that changed at 8:00 am EDT on Tuesday morning when the August CPI print hit the tape. Although headline CPI declined on a y/y basis thanks largely to falling energy prices, core CPI accelerated sequentially to +0.6% m/m (consensus was +0.3%), showing that the underlying inflation pressures within the economy remain strong.

The response of financial markets was harsh. 10y Treasury yields rose nearly 14bp instantly, and Fed Funds Futures markets abandoned any hope of a 50bp hike in September and quickly priced in an extra 25bp hike by year-end. By week's end, 1-year Treasury yields were at nearly 4% and 10-year yields were approaching 3.5%, while mortgage rates topped 6% nationally for the first time since 2008.

With the sharp move higher in rates and yet another recalibration of expectations around the near-term path of monetary policy, equity prices had nowhere to go but lower. By the end of the week, most US benchmarks were down 4-5%, with cyclical and growth stocks bearing the brunt of the selling pressure.

Other economic data released last week was somewhat encouraging. Weekly initial jobless claims (213k) continued to fall, extending the decline that began in August. Meanwhile, small business optimism rose in August. And finally, the U of M Consumer Sentiment rose slightly in preliminary September data, marking the third straight month of improvement. Notably, consumers' short term (1y = +4.6%) and longer term (5-10y = 2.8%) inflation expectations also declined sequentially, an encouraging trend that the Fed is surely monitoring closely.

Albion's "Four Pillars":

*Economy & Earnings - US GDP growth fell in Q1 (-1.6%) and in Q2 (-0.6%), but job creation remained strong in 1H22 with 2.75mn NFP added. Consensus calls for slow growth in 2H22 despite weak consumer confidence and softer housing and labor markets. Corporate operating margins remained robust in 1H22, but many companies have warned that inflation could pressure margins going forward.

*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.

*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 16 25bp rate hikes in 2022, with an implied Fed Funds target rate floor of 4.0% by year end.

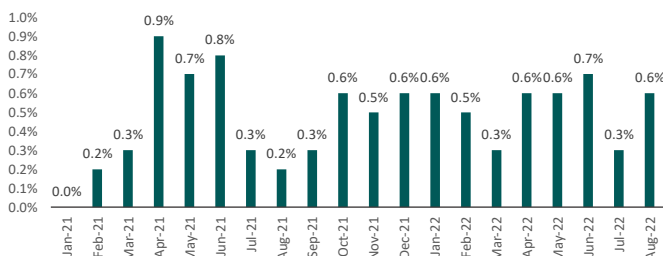
*Inflation - Inflation is at 40yr highs as supply chain disruptions, labor shortages, and rising energy prices have impacted input costs for many businesses. Headline inflation eased lower in July and August thanks to falling energy prices, but core inflation reaccelerated sequentially in the August print.

Albion's Dashboard of Key Leading Economic Indicators as of 09/16/22

- Initial Jobless Claims (224k) - Stronger: claims have fallen in August & September
- Conference Board LEI (+0.0% y/y) - Weaker: has declined sequentially since peaking in Feb 2022
- Building Permits (1,685k) - Weaker: has declined during Q2 & Q3 on higher mortgage rates
- Corporate Bond Spreads (1.32%) - Weaker: IG spreads moving wider as equities decline
- Treasury Yield Curves (62.2% inv) - Weaker: more than half of the 45 Treasury curve points are inverted
- Consumer Confidence (103.2) - Stronger: rebounded in August as inflation pressures eased
- Real Final Sales (+0.4% y/y) - Weaker: lower in H1 '22 relative to Q4 '21 peak

Legend: ● = All Clear; ● = Caution; ● = Strong Warning

Chart of the Week - Core CPI ex Food & Energy (m/m change)



Market Data

| Equity Indices | Close | Index Total Returns (%) | | | | |
|------------------------------|--------|-------------------------|-------|-------|--------|---------|
| | | 1 Week | MTD | QTD | YTD | 3y Cum. |
| S&P 500 | 3,873 | -4.7% | -2.0% | 2.7% | -17.8% | 35.7% |
| Dow Jones Indus. Avg. | 30,822 | -4.1% | -2.1% | 0.7% | -13.9% | 21.2% |
| NASDAQ | 11,448 | -5.5% | -3.1% | 4.0% | -26.4% | 43.8% |
| S&P Midcap 400 | 2,380 | -4.7% | -2.0% | 5.3% | -15.3% | 26.7% |
| Russell 2000 (Small Cap) | 1,798 | -4.5% | -2.4% | 5.6% | -19.2% | 17.8% |
| MSCI EAFE (Int'l Dev Mkt Eq) | 1,789 | -2.7% | -2.7% | -2.6% | -21.4% | 2.5% |
| MSCI EM (Emerging Mkt Eq) | 944 | -2.6% | -4.9% | -4.6% | -21.3% | -0.2% |
| MSCI World | 2,569 | -4.2% | -2.1% | 1.2% | -19.5% | 22.6% |
| S&P Global 1200 | 2,830 | -4.1% | -2.3% | 0.5% | -18.9% | 23.4% |

| Fixed Income | Yield | Index Total Returns (%) | | | | |
|----------------------------|-------|-------------------------|-------|-------|--------|---------|
| | | 1 Week | MTD | QTD | YTD | 3y Cum. |
| 10y U.S. Treasuries | 3.45% | -1.1% | -2.3% | -3.2% | -14.5% | -9.0% |
| U.S. Bonds (Aggregate) | 4.31% | -0.9% | -1.8% | -2.3% | -12.4% | -6.2% |
| Global Bonds | 3.35% | -0.9% | -2.1% | -3.9% | -17.3% | -13.1% |
| U.S. Munis | 3.57% | -0.7% | -1.6% | -1.2% | -10.1% | -2.7% |
| U.S. Investment Grade Corp | 5.14% | -1.0% | -1.9% | -1.7% | -15.8% | -6.1% |
| U.S. High Yield Corporates | 8.74% | -2.0% | -0.9% | 2.5% | -12.0% | 1.5% |

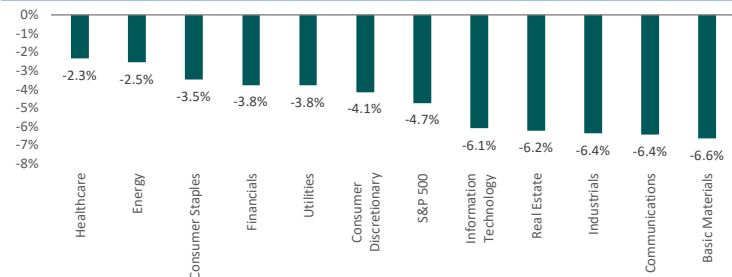
| US Interest Rates | Levels (%) | | | | | |
|----------------------------|------------|--------|---------|---------|----------|---------|
| | 9/16/22 | 9/9/22 | 8/31/22 | 3/23/20 | 12/31/21 | 9/16/19 |
| 2y Treasuries | 3.87 | 3.56 | 3.49 | 0.31 | 0.73 | 1.76 |
| 10y Treasuries | 3.45 | 3.31 | 3.19 | 0.79 | 1.51 | 1.85 |
| 30y Treasuries | 3.51 | 3.45 | 3.29 | 1.35 | 1.90 | 2.32 |
| Fed Funds (Effective Rate) | 2.33 | 2.33 | 2.33 | 0.15 | 0.07 | 2.25 |
| SOFR (USD) | 2.27 | 2.28 | 2.29 | 0.02 | 0.05 | 2.43 |
| 30y Fixed Mortgage | 6.02 | 5.89 | 5.55 | 3.65 | 3.11 | 3.56 |

| Commodity Prices | Levels | | | | | |
|------------------|---------|--------|---------|---------|----------|---------|
| | 9/16/22 | 9/9/22 | 8/31/22 | 3/23/20 | 12/31/21 | 9/16/19 |
| Oil (WTI) | 85.11 | 86.79 | 89.55 | 23.36 | 75.21 | 62.90 |
| Gasoline | 3.68 | 3.72 | 3.83 | 2.11 | 3.29 | 2.59 |
| Natural Gas | 7.76 | 8.00 | 9.13 | 1.60 | 3.73 | 2.68 |
| Gold | 1,675 | 1,717 | 1,711 | 1,553 | 1,829 | 1,498 |

| Currency Crosses | Levels | | | | | |
|------------------|---------|--------|---------|---------|----------|---------|
| | 9/16/22 | 9/9/22 | 8/31/22 | 3/23/20 | 12/31/21 | 9/16/19 |
| \$ per £ | 1.14 | 1.16 | 1.16 | 1.15 | 1.35 | 1.24 |
| \$ per € | 1.00 | 1.00 | 1.01 | 1.07 | 1.14 | 1.10 |
| ¥ per \$ | 142.9 | 142.5 | 139.0 | 111.2 | 115.1 | 108.1 |
| \$ per Bitcoin | 19,751 | 21,300 | 20,197 | 6,415 | 46,334 | 10,216 |

| Macroeconomic Data | Value | Date |
|-------------------------------|-------|----------|
| Fed Funds Target (Floor) | 2.25% | 09/16/22 |
| Inflation (Core PCE Deflator) | 4.6% | 07/31/22 |
| Inflation (Headline CPI) | 8.3% | 08/31/22 |
| Unemployment (U-3) | 3.7% | 08/31/22 |
| GDP Growth (Q/Q SAAR) | -0.6% | 06/30/22 |
| ISM Manufacturing PMI | 52.8 | 08/31/22 |
| Consumer Confidence | 103.2 | 08/31/22 |

Sector Total Returns for the Week Ending 09/16/22



YTD Sector Total Returns as of 09/16/22

