



Wealth Advisors,
Investment Managers

Weekly Market Recap - 10/07/22

Market Commentary

Weekly Recap:

Stocks moved sharply higher at the start of Q4, with the S&P 500 posting a 4% gain in just two days to kick off the month of October, although the rally fizzled after Friday's NFP report (more on that below). Cyclical sectors posted solid gains on the week despite the Friday swoon, while defensives lagged. Energy stocks shot higher following news that OPEC+ would cut production by 2 million barrels today in an effort to shore up oil prices in the face of flagging global demand.

Labor market data was mixed last week, with the Job Openings and Labor Turnover Survey (aka, "JOLTS") showing a drop in available jobs in the US, from 11.2mn in August to a still elevated 10.1mn last month. Then on Thursday, initial jobless claims arrested a 7-week downtrend and moved higher, to 219k. These signs of weakness were not echoed in Friday's monthly nonfarm payrolls report, however, potentially giving the Fed wide latitude to continue its aggressive stance on inflation.

Highlights of the monthly jobs report included:

- * +263k nonfarm payrolls added (cons = +255k)
- * 3.5% unemployment (down 20bp m/m, see the Chart of the Week for history)
- * 6.7% underemployment (down 30bp m/m)

In response to the strong labor market data, futures markets have now solidly coalesced around a 4th straight 75bp rate hike at the November FOMC meeting, followed up by another 50bp at the December meeting, for a policy rate floor of 4.25% at year-end. Treasury yields also ticked higher last week as the curve steepened slightly.

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. Operating margins remained robust in 1H22, but companies have warned that inflation could pressure margins going forward and analysts have cut Q3 earnings estimates.

*Valuation - The S&P 500's forward P/E of 16x is slightly above the long run average. More predictive 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, valuations for many growth companies are at or near decade-lows, suggesting forward 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 17 25bp rate hikes in 2022, with an implied Fed Funds target rate floor of 4.25% by year end.

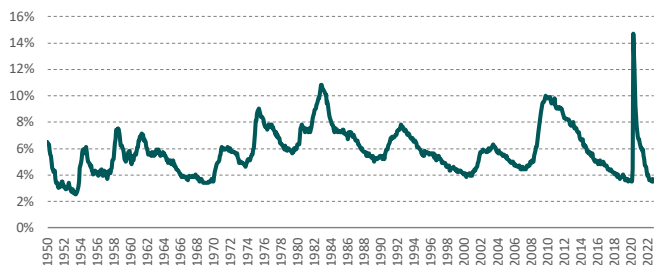
*Inflation - Inflation is at 40yr highs as supply chain disruptions, labor shortages, and rising energy prices have impacted input costs for many businesses. Headline inflation eased lower in July and August thanks to falling energy prices, but core inflation reaccelerated sequentially in the August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

Albion's Dashboard of Key Leading Economic Indicators as of 10/07/22

- Initial Jobless Claims (207k 4wk m/a) - Stronger: claims have fallen in August & September
- Conference Board LEI (-1.0% y/y) - Weaker: has declined sequentially since peaking in Feb 2022
- Building Permits (1,542k) - Weaker: has declined during Q2 & Q3 on higher mortgage rates
- Corporate Bond Spreads (1.42%) - Weaker: IG spreads moving wider as equities decline
- Treasury Yield Curves (57.8% inv) - Weaker: more than half of the 45 Treasury curve points are inverted
- Consumer Confidence (108) - Stronger: rebounded in August/September as inflation pressures eased
- Real Final Sales (+0.5% y/y) - Weaker: lower in H1 '22 relative to Q4 '21 peak

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

Chart of the Week - US Unemployment Rate (U-3)



Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	QTD	YTD	3y Cum.
S&P 500	3,640	1.6%	1.6%	1.6%	-22.7%	30.1%
Dow Jones Indus. Avg.	29,297	2.0%	2.0%	2.0%	-18.1%	17.8%
NASDAQ	10,652	0.7%	0.7%	0.7%	-31.5%	37.1%
S&P Midcap 400	2,267	2.9%	2.9%	2.9%	-19.2%	25.3%
Russell 2000 (Small Cap)	1,702	2.3%	2.3%	2.3%	-23.4%	18.0%
MSCI EAFE (Int'l Dev Mkt Eq)	1,694	1.9%	1.9%	1.9%	-25.3%	-0.9%
MSCI EM (Emerging Mkt Eq)	898	2.5%	2.5%	2.5%	-25.1%	-2.0%
MSCI World	2,418	1.7%	1.7%	1.7%	-24.2%	17.7%
S&P Global 1200	2,663	1.7%	1.7%	1.7%	-23.5%	18.6%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	QTD	YTD	3y Cum.
10y U.S. Treasuries	3.88%	-0.7%	-0.7%	-0.7%	-17.5%	-14.5%
U.S. Bonds (Aggregate)	4.82%	-0.3%	-0.3%	-0.3%	-14.8%	-10.2%
Global Bonds	3.76%	-0.4%	-0.4%	-0.4%	-20.2%	-17.1%
U.S. Munis	3.94%	0.8%	0.8%	0.8%	-11.4%	-5.2%
U.S. Investment Grade Corp	5.70%	0.2%	0.2%	0.2%	-18.6%	-10.9%
U.S. High Yield Corporates	9.28%	1.4%	1.4%	1.4%	-13.5%	0.4%

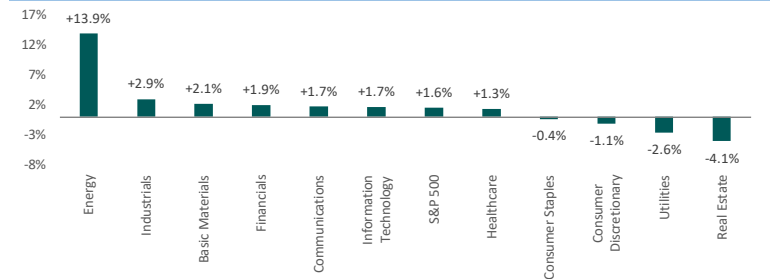
US Interest Rates	Levels (%)					
	10/7/22	9/30/22	9/30/22	3/23/20	12/31/21	10/7/19
2y Treasuries	4.31	4.28	4.28	0.31	0.73	1.46
10y Treasuries	3.88	3.83	3.83	0.79	1.51	1.56
30y Treasuries	3.84	3.78	3.78	1.35	1.90	2.05
Fed Funds (Effective Rate)	3.08	3.08	3.08	0.15	0.07	1.82
SOFR (USD)	3.05	2.98	2.98	0.02	0.05	1.83
30y Fixed Mortgage	6.66	6.70	6.70	3.65	3.11	3.65

Commodity Prices	Levels					
	10/7/22	9/30/22	9/30/22	3/23/20	12/31/21	10/7/19
Oil (WTI)	92.64	79.49	79.49	23.36	75.21	52.75
Gasoline	3.90	3.80	3.80	2.11	3.29	2.65
Natural Gas	6.75	6.77	6.77	1.60	3.73	2.30
Gold	1,695	1,661	1,661	1,553	1,829	1,494

Currency Crosses	Levels					
	10/7/22	9/30/22	9/30/22	3/23/20	12/31/21	10/7/19
\$ per £	1.11	1.12	1.12	1.15	1.35	1.23
\$ per €	0.97	0.98	0.98	1.07	1.14	1.10
¥ per \$	145.3	144.7	144.7	111.2	115.1	107.3
\$ per Bitcoin	19,552	19,425	19,425	6,415	46,334	N/A N/A

Macroeconomic Data	Value	Date	Next Rel. Cons Est	
			Date	Value
Fed Funds Target (Floor)	3.00%	10/07/22	11/02/22	3.50%
Inflation (Core PCE Deflator)	4.9%	08/31/22	10/28/22	-
Inflation (Headline CPI)	8.3%	08/31/22	10/13/22	8.10%
Unemployment (U-3)	3.5%	09/30/22	11/04/22	-
GDP Growth (Q/Q SAAR)	-0.6%	06/30/22	10/27/22	1.4%
ISM Manufacturing PMI	50.9	09/30/22	11/01/22	-
Consumer Confidence	108.0	09/30/22	10/25/22	-

Sector Total Returns for the Week Ending 10/07/22



YTD Sector Total Returns as of 10/07/22

