



Wealth Advisors,  
Investment Managers

# Weekly Market Recap - 10/21/22

## Market Commentary

### Weekly Recap:

Domestic financial markets adopted a strong risk-on tone last week, with the Treasury curve steepening while US equities rallied. Investors appeared to take some comfort from Q3 earnings being less bad than feared thus far, and also in comments from Fed governors that reinforced what futures markets were already predicting, namely a relatively neutral policy stance in 2023 (data permitting).

With some investors taking recession bets off the table, the Treasury yield curve steepened as 2y yields fell 3bp while 10y and 30y yields increased 20bp and 34bp respectively. By Friday's close, slightly less than half (22 out of 45) Treasury curve points were inverted, down from nearly 65% (29 out of 45) the prior week. Interestingly, the bullish tone in Treasuries was not matched by IG credit spreads, which remained stubbornly wide at 151bp, essentially unchanged on the week.

Equities did embrace the risk-on tone, however, with US large caps rocketing higher by roughly 5% in aggregate. Small and midcap stocks registered meaningful yet slightly smaller gains. International equities lagged but still finished in the green.

Economic data released last week was mixed. Housing starts fell sharply while residential building permits ticked up a hair. Empire Manufacturing and the Philly Fed Business Outlook both fell deeper into contraction territory, but Industrial Production rose 0.4% sequentially in September, beating expectations. Initial jobless claims fell, while continuing claims rose. Lastly, the Conference Board's Leading Economic Index fell 0.4% sequentially and reach -1.4% on a y/y basis, a level that has always presaged an oncoming recession in the past (see Chart of the Week).

### Albion's "Four Pillars":

\*Economy & Earnings - US GDP fell in Q1 (-1.6%) and in Q2 (-0.6%), but job creation was strong with 2.75mn NFP added in 1H22, and corporate operating margins were robust. Consensus calls for slow economic growth in 2H22, but companies have warned of inflation pressuring margins, 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.

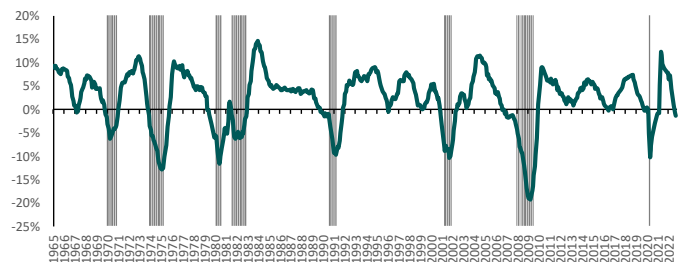
\*Inflation - Inflation is at 40yr highs as supply chain disruptions, labor shortages, and rising energy prices have impacted input costs for many businesses. Headline inflation eased lower over the summer thanks to falling energy prices, but core inflation reaccelerated sequentially in August & September.

### Albion's Dashboard of Key Leading Economic Indicators as of 10/21/22

- Initial Jobless Claims (212k 4wk m/a) - Weaker: claims have begun rising again in October
- Conference Board LEI (-1.4% y/y) - Weaker: has declined sequentially since peaking in Feb 2022
- Building Permits (1,564k) - Weaker: has declined during Q2 & Q3 on higher mortgage rates
- Corporate Bond Spreads (1.51%) - Weaker: IG spreads moving wider as equities decline
- Treasury Yield Curves (48.9% 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 - Conference Board US Leading Economic Index (y/y chg)



## Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	QTD	YTD	3y Cum.
S&P 500	3,753	4.8%	4.7%	4.7%	-20.3%	31.1%
Dow Jones Indus. Avg.	31,083	4.9%	8.3%	8.3%	-13.0%	23.4%
NASDAQ	10,860	5.2%	2.7%	2.7%	-30.2%	36.2%
S&P Midcap 400	2,312	3.0%	5.0%	5.0%	-17.6%	24.2%
Russell 2000 (Small Cap)	1,742	3.6%	4.7%	4.7%	-21.6%	16.7%
MSCI EAFE (Int'l Dev Mkt Eq)	1,680	0.5%	1.1%	1.1%	-25.9%	-5.1%
MSCI EM (Emerging Mkt Eq)	865	0.2%	-1.2%	-1.2%	-27.8%	-8.8%
MSCI World	2,462	3.6%	3.6%	3.6%	-22.8%	16.7%
S&P Global 1200	2,718	3.8%	3.8%	3.8%	-21.9%	17.7%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	QTD	YTD	3y Cum.
10y U.S. Treasuries	4.22%	-1.6%	-3.4%	-3.4%	-19.6%	-15.0%
U.S. Bonds (Aggregate)	5.15%	-1.1%	-2.5%	-2.5%	-16.7%	-11.4%
Global Bonds	3.99%	-0.7%	-2.5%	-2.5%	-21.9%	-18.4%
U.S. Munis	4.13%	-1.2%	-0.3%	-0.3%	-12.4%	-5.8%
U.S. Investment Grade Corp	6.10%	-1.2%	-2.7%	-2.7%	-20.9%	-12.7%
U.S. High Yield Corporates	9.62%	0.3%	0.6%	0.6%	-14.3%	-1.1%

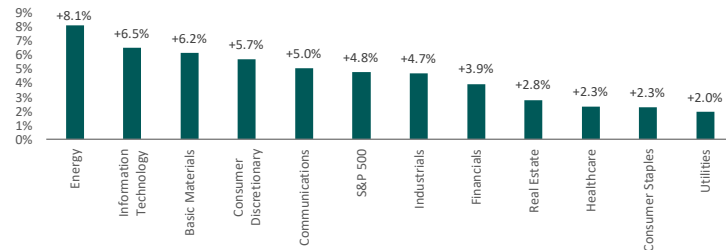
US Interest Rates	Levels (%)					
	10/21/22	10/14/22	9/30/22	3/23/20	12/31/21	10/21/19
2y Treasuries	4.47	4.50	4.28	0.31	0.73	1.62
10y Treasuries	4.22	4.02	3.83	0.79	1.51	1.80
30y Treasuries	4.33	3.99	3.78	1.35	1.90	2.29
Fed Funds (Effective Rate)	3.08	3.08	3.08	0.15	0.07	1.85
SOFR (USD)	3.02	3.04	2.98	0.02	0.05	1.86
30y Fixed Mortgage	6.94	6.92	6.70	3.65	3.11	3.69

Commodity Prices	Levels					
	10/21/22	10/14/22	9/30/22	3/23/20	12/31/21	10/21/19
Oil (WTI)	85.05	85.61	79.49	23.36	75.21	53.31
Gasoline	3.80	3.89	3.80	2.11	3.29	2.64
Natural Gas	4.96	6.45	6.77	1.60	3.73	2.24
Gold	1,658	1,644	1,661	1,553	1,829	1,485

Currency Crosses	Levels					
	10/21/22	10/14/22	9/30/22	3/23/20	12/31/21	10/21/19
\$ per £	1.13	1.12	1.12	1.15	1.35	1.30
\$ per €	0.99	0.97	0.98	1.07	1.14	1.12
¥ per \$	147.7	148.7	144.7	111.2	115.1	108.6
\$ per Bitcoin	19,182	19,177	19,425	6,415	46,334	8,208

Macroeconomic Data	Value	Date	Next Rel.	Cons Est
Inflation (Core PCE Deflator)	4.9%	08/31/22	10/28/22	5.2%
Inflation (Headline CPI)	8.2%	09/30/22	11/10/22	-
Unemployment (U-3)	3.5%	09/30/22	11/04/22	3.6%
GDP Growth (Q/Q SAAR)	-0.6%	06/30/22	10/27/22	1.9%
ISM Manufacturing PMI	50.9	09/30/22	11/01/22	49.9
Consumer Confidence	108.0	09/30/22	10/25/22	106.0

### Sector Total Returns for the Week Ending 10/21/22



### YTD Sector Total Returns as of 10/21/22

