



Wealth Advisors,
Investment Managers

Weekly Market Recap - 10/28/22

Market Commentary

Weekly Recap:

US equities moved sharply higher for a second straight week as investors increasingly became confident that the upcoming November FOMC meeting could represent the last of the 75bp rate hikes. The only sector in the S&P 500 to finish lower was Communications, which was dragged down by a 23.7% decline in META after very disappointing Q3 earnings. Softer digital ad revenue also impacted Alphabet (Google) in the quarter. Q3 earnings season thus far has been mixed, with y/y earnings growth running at just +2% overall (-5% excluding the energy sector).

International stocks were higher as well, with one exception: China. By the end of the 20th China Party Congress, Xi Jinping had solidified his power and made it clear that Chinese companies would continue to see strict oversight under his rule. The MSCI China Index bucked the global trend and dropped 9% on the week.

Bond markets rallied as rates fell in the belly and long end, deepening the inversion. Notably, the 3m/10y curve point finally inverted for the first time in this cycle as well, as the Fed gradually catches up to what has been priced into the Treasury curve for some time now. Credit spreads tightened marginally.

Economic news last week was mixed. Consumer confidence fell and initial jobless claims rose. Mortgage rates topped 7% in the US for the first time since early 2002, while new and existing home sales slowed and home prices fell. Durable goods orders missed expectations, while S&P's US Manufacturing PMI slipped below 50 and into contraction territory. However, Q3 GDP came in at a robust +2.6% thanks to a rebound in net trade and a resilient US consumer.

Albion's "Four Pillars":

*Economy & Earnings - US GDP rebounded to +2.6% in Q3 after falling in 1H22, and corporate operating margins remain solid at -12% on the S&P 500. Albion's base case expectation is that the US economy will enter recession in 2023, putting downside pressure on earnings.

*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. Most or all of this year's P/E multiple compression has been driven by rates, rather than an expansion of the equity risk premium.

*Interest Rates - Rates have risen across the curve in 2022 in response to a shift in monetary policy. Fed Fund Futures are pricing in +75bp in November and +50bp in December, with an implied Fed Funds target rate floor of 4.25% by year end.

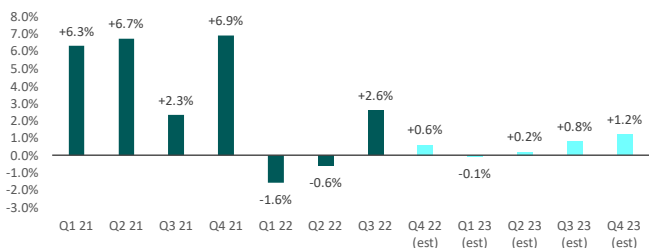
*Inflation - Inflation is at 40yr highs as supply chain disruptions, labor shortages, and rising energy prices have impacted input costs for many businesses. Headline inflation eased lower over the summer thanks to falling energy prices, but core inflation reaccelerated sequentially in August & September.

Albion's Dashboard of Key Leading Economic Indicators as of 10/28/22

- Initial Jobless Claims (219k 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 (1.46%) - Weaker: IG spreads moving wider as equities decline
- Treasury Yield Curves (68.9% inv) - Weaker: more than 2/3 of the 45 Treasury curve points are inverted
- Consumer Confidence (102.5) - Steady: resilient thanks to falling gasoline prices, still well below cycle peak
- Real Final Sales (+1.2% y/y) - Stronger: rebounded in Q3 after weakening in 1H22, still far below cycle...

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

Chart of the Week - US Annualized QoQ GDP Growth w/ Consensus Estimates



Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	QTD	YTD	3y Cum.
S&P 500	3,901	4.0%	8.9%	8.9%	-17.1%	34.8%
Dow Jones Indus. Avg.	32,862	5.7%	14.5%	14.5%	-8.1%	29.2%
NASDAQ	11,102	2.2%	5.0%	5.0%	-28.6%	36.6%
S&P Midcap 400	2,435	5.3%	10.6%	10.6%	-13.2%	29.3%
Russell 2000 (Small Cap)	1,847	6.0%	11.0%	11.0%	-16.9%	22.0%
MSCI EAFE (Int'l Dev Mkt Eq)	1,749	4.1%	5.3%	5.3%	-22.9%	-2.0%
MSCI EM (Emerging Mkt Eq)	846	-2.2%	-3.4%	-3.4%	-29.4%	-12.1%
MSCI World	2,561	4.0%	7.7%	7.7%	-19.7%	20.2%
S&P Global 1200	2,809	3.4%	7.3%	7.3%	-19.3%	20.4%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	QTD	YTD	3y Cum.
10y U.S. Treasuries	4.01%	2.0%	-1.4%	-1.4%	-18.0%	-12.9%
U.S. Bonds (Aggregate)	4.94%	1.7%	-0.9%	-0.9%	-15.4%	-9.8%
Global Bonds	3.76%	2.5%	0.0%	0.0%	-19.9%	-16.1%
U.S. Munis	4.22%	-0.6%	-0.9%	-0.9%	-12.9%	-6.2%
U.S. Investment Grade Corp	5.87%	2.0%	-0.8%	-0.8%	-19.3%	-10.9%
U.S. High Yield Corporates	8.99%	2.4%	3.0%	3.0%	-12.2%	1.1%

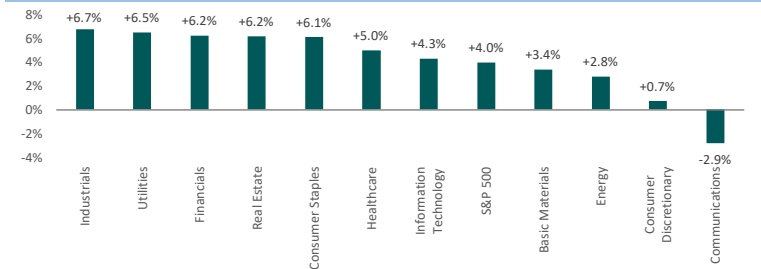
US Interest Rates	Levels (%)					
	10/28/22	10/21/22	9/30/22	3/23/20	12/31/21	10/28/19
2y Treasuries	4.41	4.47	4.28	0.31	0.73	1.64
10y Treasuries	4.01	4.22	3.83	0.79	1.51	1.84
30y Treasuries	4.14	4.33	3.78	1.35	1.90	2.33
Fed Funds (Effective Rate)	3.08	3.08	3.08	0.15	0.07	1.83
SOFR (USD)	3.05	3.02	2.98	0.02	0.05	1.82
30y Fixed Mortgage	7.08	6.94	6.70	3.65	3.11	3.75

Commodity Prices	Levels					
	10/28/22	10/21/22	9/30/22	3/23/20	12/31/21	10/28/19
Oil (WTI)	87.90	85.05	79.49	23.36	75.21	55.81
Gasoline	3.76	3.80	3.80	2.11	3.29	2.60
Natural Gas	5.68	4.96	6.77	1.60	3.73	2.45
Gold	1,645	1,658	1,661	1,553	1,829	1,493

Currency Crosses	Levels					
	10/28/22	10/21/22	9/30/22	3/23/20	12/31/21	10/28/19
\$ per €	1.16	1.13	1.12	1.15	1.35	1.29
\$ per ¥	1.00	0.99	0.98	1.07	1.14	1.11
¥ per \$	147.6	147.7	144.7	111.2	115.1	109.0
\$ per Bitcoin	20,636	19,182	19,425	6,415	46,334	9,456

Macroeconomic Data	Value	Date	Next Rel.	Cons Est
Fed Funds Target (Floor)	3.00%	10/28/22	11/02/22	3.75%
Inflation (Core PCE Deflator)	5.1%	09/30/22	12/01/22	-
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)	2.6%	09/30/22	01/26/23	1.9%
ISM Manufacturing PMI	50.9	09/30/22	11/01/22	50.0
Consumer Confidence	102.5	10/28/22	11/29/22	-

Sector Total Returns for the Week Ending 10/28/22



YTD Sector Total Returns as of 10/28/22

