



Wealth Advisors,  
Investment Managers

## Weekly Market Recap - 11/04/22

### Market Commentary

#### Weekly Recap:

Last week's main event was the November FOMC meeting, which concluded with the 75bp rate hike that everyone knew was coming. What was less obvious in advance was whether the Fed would communicate an intent to slow the pace of future rate hikes, potentially as soon as next month's meeting. On that front, the market was initially excited about the reference to "the lags with which monetary policy affects economic activity and inflation" in the press release. Equities jumped and rates fell. But about an hour later, Fed Chair Jerome Powell stepped to the press conference microphone and made it very clear that even if the pace of hikes slows in the not-too-distant future, rates would probably rise higher and remain high for longer than the Fed and market participants had previously expected.

Once the Fed's outlook was fully understood, markets quickly reversed course. Rates moved higher, the yield curve inversion deepened, and the "terminal" Fed Funds rate (the point at which the market expects the Fed to stop hiking) was pushed solidly above 5%. US equities fell, particularly longer duration growth stocks as the Nasdaq significantly underperformed. International benchmarks were buoyed by an 11% gain in Chinese stocks, driven by the approval of Pfizer's mRNA vaccine for foreign residents and speculation that Beijing may reconsider its Zero Covid policy.

The week concluded with the BLS's monthly jobs report, which had a Goldilocks feel. Job growth continues in the US, but the pace has clearly moderated relative to the first half of the year (see the Chart of the Week for a time series). Unemployment (U3=3.7%) and underemployment (U6=6.8%) ticked higher sequentially, a welcome development for a Fed that is working hard to cool an overheated labor market.

#### 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 +50bp in December and 3 additional 25bp hikes in 2023, with a "terminal" Fed Funds rate above 5% for this cycle.

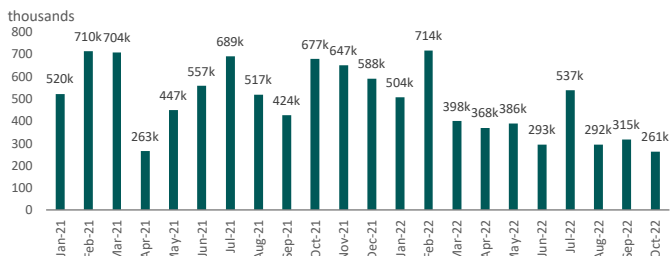
\*Inflation - Inflation is at 40yr highs as supply chain disruptions, labor shortages, and rising energy prices have impacted input costs for many businesses. Headline inflation eased lower over the summer thanks to falling energy prices, but core inflation reaccelerated sequentially in August & September.

#### Albion's Dashboard of Key Leading Economic Indicators as of 11/04/22

- Initial Jobless Claims (219k 4wk m/a) - Weaker: claims began rising again in October
- Conference Board LEI (-1.4% y/y) - Weaker: has declined sequentially since peaking in Feb 2022
- Building Permits (1564k) - Weaker: has declined during Q2 & Q3 on higher mortgage rates
- Corporate Bond Spreads (1.41%) - Steady: IG spreads have recently stabilized at moderately wide levels
- Treasury Yield Curves (64.4% inv) - Weaker: roughly 2/3 of the 45 Treasury curve points are inverted
- Consumer Confidence (102.5) - Steady: resilient thanks to falling gas prices, still well below cycle peak
- Real Final Sales (+1.2% y/y) - Stronger: rebounded in Q3 '22, growth rate still far below cycle peak

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

#### Chart of the Week - US Nonfarm Payroll Growth



### Market Data

| Equity Indices               | Close  | Index Total Returns (%) |       |       |        |         |
|------------------------------|--------|-------------------------|-------|-------|--------|---------|
|                              |        | 1 Week                  | MTD   | QTD   | YTD    | 3y Cum. |
| S&P 500                      | 3,771  | -3.3%                   | -2.6% | 5.3%  | -19.8% | 28.7%   |
| Dow Jones Indus. Avg.        | 32,403 | -1.4%                   | -1.0% | 12.9% | -9.3%  | 25.7%   |
| NASDAQ                       | 10,475 | -5.6%                   | -4.6% | -0.9% | -32.6% | 27.2%   |
| S&P Midcap 400               | 2,406  | -1.2%                   | -1.1% | 9.3%  | -14.2% | 26.2%   |
| Russell 2000 (Small Cap)     | 1,800  | -2.5%                   | -2.5% | 8.2%  | -19.0% | 17.0%   |
| MSCI EAFE (Int'l Dev Mkt Eq) | 1,770  | 1.2%                    | 1.2%  | 6.6%  | -21.9% | -2.4%   |
| MSCI EM (Emerging Mkt Eq)    | 885    | 4.7%                    | 4.4%  | 1.1%  | -26.1% | -9.8%   |
| MSCI World                   | 2,507  | -2.1%                   | -1.6% | 5.5%  | -21.3% | 16.1%   |
| S&P Global 1200              | 2,768  | -1.4%                   | -1.0% | 5.8%  | -20.4% | 17.1%   |

| Fixed Income               | Yield | Index Total Returns (%) |       |       |        |         |
|----------------------------|-------|-------------------------|-------|-------|--------|---------|
|                            |       | 1 Week                  | MTD   | QTD   | YTD    | 3y Cum. |
| 10y U.S. Treasuries        | 4.16% | -1.4%                   | -1.0% | -2.8% | -19.2% | -14.6%  |
| U.S. Bonds (Aggregate)     | 5.10% | -0.8%                   | -0.4% | -1.7% | -16.0% | -10.9%  |
| Global Bonds               | 3.89% | -0.9%                   | -0.2% | -1.0% | -20.7% | -17.4%  |
| U.S. Munis                 | 4.18% | 0.4%                    | 0.3%  | -0.5% | -12.6% | -6.1%   |
| U.S. Investment Grade Corp | 5.99% | -0.6%                   | -0.3% | -1.3% | -19.8% | -11.9%  |
| U.S. High Yield Corporates | 9.19% | -1.2%                   | -0.8% | 1.8%  | -13.2% | -0.2%   |

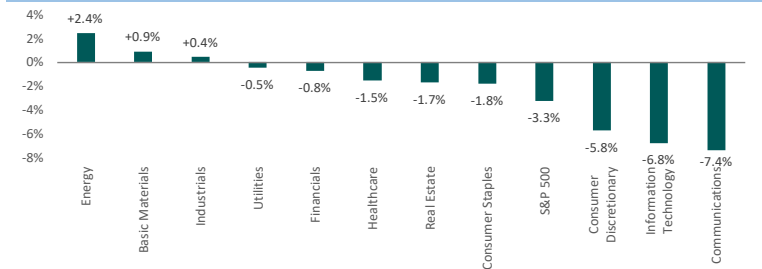
| US Interest Rates          | Levels (%) |          |          |         |          |         |
|----------------------------|------------|----------|----------|---------|----------|---------|
|                            | 11/4/22    | 10/28/22 | 10/31/22 | 3/23/20 | 12/31/21 | 11/4/19 |
| 2y Treasuries              | 4.66       | 4.41     | 4.48     | 0.31    | 0.73     | 1.58    |
| 10y Treasuries             | 4.16       | 4.01     | 4.05     | 0.79    | 1.51     | 1.78    |
| 30y Treasuries             | 4.25       | 4.14     | 4.16     | 1.35    | 1.90     | 2.26    |
| Fed Funds (Effective Rate) | 3.83       | 3.08     | 3.08     | 0.15    | 0.07     | 1.56    |
| SOFR (USD)                 | 3.80       | 3.05     | 3.05     | 0.02    | 0.05     | 1.56    |
| 30y Fixed Mortgage         | 6.95       | 7.08     | 7.08     | 3.65    | 3.11     | 3.78    |

| Commodity Prices | Levels  |          |          |         |          |         |
|------------------|---------|----------|----------|---------|----------|---------|
|                  | 11/4/22 | 10/28/22 | 10/31/22 | 3/23/20 | 12/31/21 | 11/4/19 |
| Oil (WTI)        | 92.61   | 87.90    | 86.53    | 23.36   | 75.21    | 56.54   |
| Gasoline         | 3.80    | 3.76     | 3.76     | 2.11    | 3.29     | 2.61    |
| Natural Gas      | 6.40    | 5.68     | 6.36     | 1.60    | 3.73     | 2.82    |
| Gold             | 1,682   | 1,645    | 1,634    | 1,553   | 1,829    | 1,510   |

| Currency Crosses | Levels  |          |          |         |          |         |
|------------------|---------|----------|----------|---------|----------|---------|
|                  | 11/4/22 | 10/28/22 | 10/31/22 | 3/23/20 | 12/31/21 | 11/4/19 |
| \$ per £         | 1.14    | 1.16     | 1.15     | 1.15    | 1.35     | 1.29    |
| \$ per €         | 1.00    | 1.00     | 0.99     | 1.07    | 1.14     | 1.11    |
| ¥ per \$         | 146.6   | 147.6    | 148.7    | 111.2   | 115.1    | 108.6   |
| \$ per Bitcoin   | 21,135  | 20,636   | 20,406   | 6,415   | 46,334   | 9,443   |

| Macroeconomic Data            | Value | Date     | Next Rel. Cons Est |          |
|-------------------------------|-------|----------|--------------------|----------|
|                               |       |          | Next Rel.          | Cons Est |
| Fed Funds Target (Floor)      | 3.75% | 11/04/22 | 12/14/22           | 4.25%    |
| Inflation (Core PCE Deflator) | 5.1%  | 09/30/22 | 12/01/22           | -        |
| Inflation (Headline CPI)      | 8.2%  | 09/30/22 | 11/10/22           | 7.90%    |
| Unemployment (U-3)            | 3.7%  | 10/31/22 | 12/02/22           | -        |
| GDP Growth (Q/Q SAAR)         | 2.6%  | 09/30/22 | 01/26/23           | 0.6%     |
| ISM Manufacturing PMI         | 50.2  | 10/31/22 | 12/01/22           | -        |
| Consumer Confidence           | 102.5 | 10/31/22 | 11/29/22           | -        |

#### Sector Total Returns for the Week Ending 11/04/22



#### YTD Sector Total Returns as of 11/04/22

