



Wealth Advisors,  
Investment Managers

# Weekly Market Recap - 11/11/22

## Market Commentary

### Weekly Recap:

Stocks and bonds alike staged a strong rally after October CPI data came in below expectations by 20bp across the board:

\* Headline CPI was +0.4% m/m and fell to +7.7% y/y

\* Core (ex food & energy) CPI was +0.3% m/m and +6.3% y/y

The sequential drop in core CPI was the primary focus of market participants, as it reflects *real time* inflation dynamics without the volatile impact of food and energy prices. Goods inflation has moved lower as supply chain bottlenecks have eased, leaving services inflation as the primary driver. See the Chart of the Week for a time series of recent m/m prints of the CPI Services component.

Investors responded by immediately removing one full 25bp rate hike from its calculus regarding the forward path of Fed policy, with the reduction relative to previous expectations coming in early 2023 (a 50bp hike is still priced for the December FOMC meeting).

The Treasury curve followed suit, with yields falling in excess of 30bp from the 1y to 10y point, while long bond (30y) yields were down by nearly 25bp as well. Credit spreads continued to drift tighter as well, to the benefit of corporate bonds.

Equity markets responded to the improved inflation / interest rate outlook by moving sharply higher. Returns were generally ordered by duration, with tech and other growth stocks outperforming while higher dividend paying sectors lagged.

### 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 17x 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 2 additional 25bp hikes in 2023, with a "terminal" Fed Funds rate of 4.75-5.0% for this cycle.

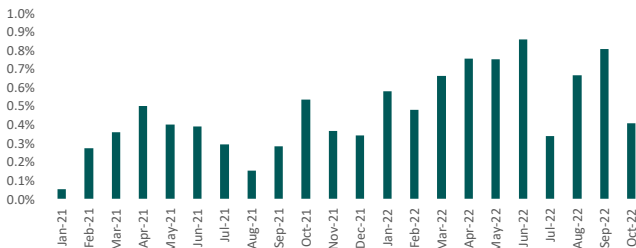
\*Inflation - Inflation is near 40yr highs as supply chain disruptions, labor shortages, and rising energy prices have impacted input costs for many businesses. Headline inflation eased lower over the summer thanks to falling energy prices, and core inflation decelerated in October.

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

- 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 (1,564k) - Weaker: has declined during Q2 & Q3 on higher mortgage rates
- Corporate Bond Spreads (1.36%) - Steady: IG spreads have recently stabilized at moderately wide levels
- Treasury Yield Curves (71.1% 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 - CPI Services Component (m/m, SA)



## Market Data

| Equity Indices               | Close  | Index Total Returns (%) |       |       |        |         |
|------------------------------|--------|-------------------------|-------|-------|--------|---------|
|                              |        | 1 Week                  | MTD   | QTD   | YTD    | 3y Cum. |
| S&P 500                      | 3,993  | 5.9%                    | 3.2%  | 11.5% | -15.1% | 35.8%   |
| Dow Jones Indus. Avg.        | 33,748 | 4.2%                    | 3.2%  | 17.7% | -5.5%  | 29.7%   |
| NASDAQ                       | 11,323 | 8.1%                    | 3.1%  | 7.2%  | -27.1% | 37.0%   |
| S&P Midcap 400               | 2,532  | 5.3%                    | 4.1%  | 15.1% | -9.7%  | 32.9%   |
| Russell 2000 (Small Cap)     | 1,883  | 4.6%                    | 2.0%  | 13.2% | -15.2% | 22.5%   |
| MSCI EAFE (Int'l Dev Mkt Eq) | 1,918  | 8.4%                    | 9.7%  | 15.6% | -15.3% | 5.8%    |
| MSCI EM (Emerging Mkt Eq)    | 936    | 5.7%                    | 10.4% | 6.9%  | -21.8% | -3.6%   |
| MSCI World                   | 2,674  | 6.7%                    | 5.0%  | 12.6% | -16.1% | 23.6%   |
| S&P Global 1200              | 2,947  | 6.5%                    | 5.5%  | 12.7% | -15.3% | 24.5%   |

| Fixed Income               | Yield | Index Total Returns (%) |      |      |        |         |
|----------------------------|-------|-------------------------|------|------|--------|---------|
|                            |       | 1 Week                  | MTD  | QTD  | YTD    | 3y Cum. |
| 10y U.S. Treasuries        | 3.81% | 2.9%                    | 2.0% | 0.1% | -16.8% | -10.9%  |
| U.S. Bonds (Aggregate)     | 4.73% | 2.3%                    | 1.9% | 0.6% | -14.1% | -8.3%   |
| Global Bonds               | 3.65% | 3.9%                    | 3.5% | 2.8% | -17.6% | -13.2%  |
| U.S. Munis                 | 3.99% | 1.4%                    | 1.7% | 0.9% | -11.4% | -4.3%   |
| U.S. Investment Grade Corp | 5.60% | 2.6%                    | 2.3% | 1.2% | -17.7% | -8.9%   |
| U.S. High Yield Corporates | 8.91% | 1.2%                    | 0.4% | 3.0% | -12.2% | 1.1%    |

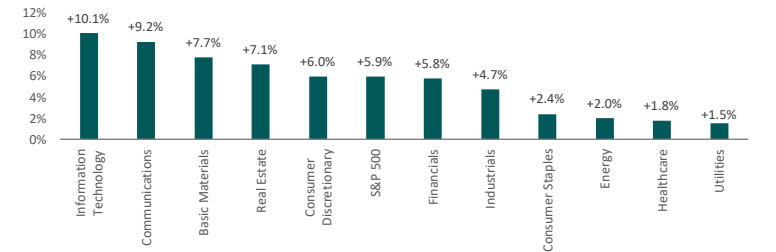
| US Interest Rates          | Levels (%) |         |          |         |          |         |
|----------------------------|------------|---------|----------|---------|----------|---------|
|                            | 11/1/22    | 11/4/22 | 10/31/22 | 9/30/22 | 12/31/21 | 11/1/19 |
| 2y Treasuries              | 4.33       | 4.66    | 4.48     | 4.28    | 0.73     | 1.67    |
| 10y Treasuries             | 3.81       | 4.16    | 4.05     | 3.83    | 1.51     | 1.94    |
| 30y Treasuries             | 4.02       | 4.25    | 4.16     | 3.78    | 1.90     | 2.42    |
| Fed Funds (Effective Rate) | 3.83       | 3.83    | 3.08     | 3.08    | 0.07     | 1.55    |
| SOFR (USD)                 | 3.78       | 3.80    | 3.05     | 2.98    | 0.05     | 1.56    |
| 30y Fixed Mortgage         | 6.95       | 6.95    | 7.08     | 6.70    | 3.11     | 3.69    |

| Commodity Prices | Levels  |         |          |         |          |         |
|------------------|---------|---------|----------|---------|----------|---------|
|                  | 11/1/22 | 11/4/22 | 10/31/22 | 9/30/22 | 12/31/21 | 11/1/19 |
| Oil (WTI)        | 88.96   | 92.61   | 86.53    | 79.49   | 75.21    | 56.86   |
| Gasoline         | 3.78    | 3.80    | 3.76     | 3.80    | 3.29     | 2.61    |
| Natural Gas      | 5.88    | 6.40    | 6.36     | 6.77    | 3.73     | 2.64    |
| Gold             | 1,771   | 1,682   | 1,634    | 1,661   | 1,829    | 1,456   |

| Currency Crosses | Levels  |         |          |         |          |         |
|------------------|---------|---------|----------|---------|----------|---------|
|                  | 11/1/22 | 11/4/22 | 10/31/22 | 9/30/22 | 12/31/21 | 11/1/19 |
| \$ per €         | 1.18    | 1.14    | 1.15     | 1.12    | 1.35     | 1.29    |
| \$ per ¥         | 1.03    | 1.00    | 0.99     | 0.98    | 1.14     | 1.10    |
| ¥ per \$         | 138.8   | 146.6   | 148.7    | 144.7   | 115.1    | 109.1   |
| ¥ per Bitcoin    | 16,757  | 21,135  | 20,406   | 19,425  | 46,334   | 8,736   |

| Macroeconomic Data            | Value | Date     | Next Rel. | Cons Est |
|-------------------------------|-------|----------|-----------|----------|
| Fed Funds Target (Floor)      | 3.75% | 11/1/22  | 12/14/22  | 4.25%    |
| Inflation (Core PCE Deflator) | 5.1%  | 09/30/22 | 12/01/22  | -        |
| Inflation (Headline CPI)      | 7.7%  | 10/31/22 | 12/13/22  | -        |
| 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 11/11/22



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

