



Wealth Advisors,  
Investment Managers

# Weekly Market Recap - 11/18/22

## Market Commentary

### Weekly Recap:

Last week featured a number of hawkish pronouncements from Fed governors, in what felt like a coordinated attempt to offset investor optimism that recent inflation data might alter the trajectory of monetary policy. Boston Fed CEO Susan Collins stated on CNBC that a 75bp hike in December is still on the table (futures expect 50bp), while James Bullard from the St. Louis Fed stated during a presentation that an appropriately restrictive policy rate would be in the 5% to 7% (!) range.

In response, futures markets added back the 3rd 2023 rate hike that had largely been priced out after recent CPI and PPI prints. Meanwhile the Treasury yield curve inversion deepened as the front end moved -25bp higher while long bond yields fell.

Equity investors responded by circling the wagons a bit, bidding up defensive sectors (staples, utilities, and healthcare) while cyclical, growth stocks, and small caps underperformed. International equities finished higher, particularly Chinese stocks which were up for a 3rd consecutive week on continued signs that Beijing could be moderating its long-held "Zero Covid" policies.

Incoming data continues to show a softening economy. Producer price inflation (PPI) was below consensus at +0.2% m/m and +8.0% y/y. Retail sales surprised to the upside (+1.3% m/m), but housing metrics were weak across the board: permits (-2.4%) and starts (-4.2%) fell sequentially, while NAHB's sentiment index (33) and existing home sales (4.4mn SAAR) fell to decade-plus lows (ex spring 2020). Industrial production (-0.1%) shrank in October, while the Philly (-19.4) and Kansas City Fed (-6) surveys were solidly in contraction territory for November.

### 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 2-3 additional 25bp hikes in 2023, with a terminal Fed Funds rate of -5.0% for this cycle.

\*Inflation - Inflation remains 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 11/18/22

- Initial Jobless Claims (221k 4wk m/a) - Steady: claims have stabilized after rising in October
- Conference Board LEI (-2.7% y/y) - Weaker: has declined significantly since peaking in Feb 2022
- Building Permits (1,526k) - Weaker: has declined since spring 2022 on rising mortgage rates
- Corporate Bond Spreads (126%) - Stronger: IG spreads have tightened since mid-October
- Treasury Yield Curves (80.0% inv) - Weaker: most Treasury curve points are inverted
- Consumer Confidence (102.5) - Steady: resilient on lower gasoline 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 - Producer Price Inflation (y/y change)



## Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	QTD	YTD	3y Cum.
S&P 500	3,965	-0.6%	2.6%	10.9%	-15.6%	33.4%
Dow Jones Indus. Avg.	33,746	0.1%	3.3%	17.8%	-5.4%	28.2%
NASDAQ	11,146	-1.5%	1.6%	5.6%	-28.2%	33.5%
S&P Midcap 400	2,511	-0.8%	3.3%	14.2%	-10.4%	31.5%
Russell 2000 (Small Cap)	1,850	-1.7%	0.3%	11.3%	-16.6%	20.6%
MSCI EAFE (Int'l Dev Mkt Eq)	1,922	0.3%	10.0%	15.9%	-15.1%	5.7%
MSCI EM (Emerging Mkt Eq)	943	0.8%	11.2%	7.8%	-21.2%	-2.8%
MSCI World	2,659	-0.5%	4.5%	12.0%	-16.5%	21.8%
S&P Global 1200	2,932	-0.4%	5.0%	12.2%	-15.6%	22.8%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	QTD	YTD	3y Cum.
10y U.S. Treasuries	3.83%	0.1%	2.0%	0.1%	-16.7%	-11.9%
U.S. Bonds (Aggregate)	4.73%	0.5%	2.4%	1.1%	-13.7%	-8.4%
Global Bonds	3.62%	0.5%	4.1%	3.4%	-17.2%	-13.4%
U.S. Munis	3.72%	1.9%	3.7%	2.8%	-9.7%	-2.8%
U.S. Investment Grade Corp	5.50%	1.2%	3.6%	2.5%	-11.7%	-8.5%
U.S. High Yield Corporates	8.82%	0.7%	1.1%	3.7%	-11.6%	1.9%

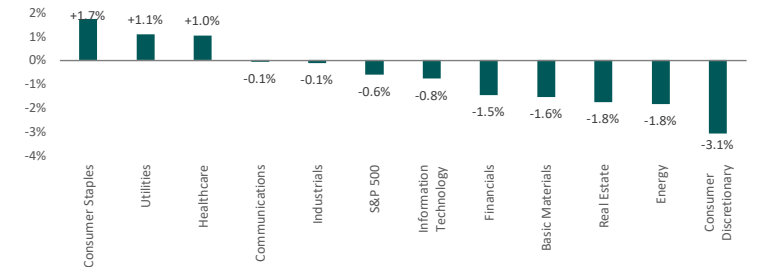
US Interest Rates	Levels (%)					
	11/18/22	11/1/22	10/31/22	9/30/22	12/31/21	11/18/19
2y Treasuries	4.53	4.33	4.48	4.28	0.73	1.60
10y Treasuries	3.83	3.81	4.05	3.83	1.51	1.82
30y Treasuries	3.93	4.02	4.16	3.78	1.90	2.30
Fed Funds (Effective Rate)	3.83	3.83	3.08	3.08	0.07	3.83
SOFR (USD)	3.80	3.78	3.05	2.98	0.05	3.78
30y Fixed Mortgage	6.56	7.08	7.08	6.70	3.11	3.75

Commodity Prices	Levels					
	11/18/22	11/1/22	10/31/22	9/30/22	12/31/21	11/18/19
Oil (WTI)	80.08	88.96	86.53	79.49	75.21	57.05
Gasoline	3.68	3.78	3.76	3.80	3.29	2.60
Natural Gas	6.30	5.88	6.36	6.77	3.73	2.57
Gold	1,751	1,771	1,634	1,661	1,829	1,472

Currency Crosses	Levels					
	11/18/22	11/1/22	10/31/22	9/30/22	12/31/21	11/18/19
\$ per £	1.19	1.18	1.15	1.12	1.35	1.30
\$ per €	1.03	1.03	0.99	0.98	1.14	1.11
¥ per \$	140.4	138.8	148.7	144.7	115.1	108.7
¥ per Bitcoin	16,637	16,757	20,406	19,425	46,334	8,219

Macroeconomic Data	Value	Date	Next Rel. Cons Est	
			Next Rel.	Cons Est
Fed Funds Target (Floor)	3.75%	11/18/22	12/14/22	4.25%
Inflation (Core PCE Deflator)	5.1%	09/30/22	12/01/22	5.0%
Inflation (Headline CPI)	7.7%	10/31/22	12/13/22	-
Unemployment (U-3)	3.7%	10/31/22	12/02/22	3.8%
GDP Growth (Q/Q SAAR)	2.6%	09/30/22	01/26/23	0.5%
ISM Manufacturing PMI	50.2	10/31/22	12/01/22	50.0
Consumer Confidence	102.5	10/31/22	11/29/22	100.0

### Sector Total Returns for the Week Ending 11/18/22



### YTD Sector Total Returns as of 11/18/22

