



Wealth Advisors,
Investment Managers

Weekly Market Recap - 11/25/22

Market Commentary

Weekly Recap:

Stocks and bonds rose in unison during the holiday-shortened week as market participants collectively expressed skepticism regarding recent hawkish comments from various Fed governors. Rates fell across the curve and Fed Fund Futures remained firmly anchored to a 50bp hike in December, despite Susan Collins' assertion that 75bp was still on the table. Meanwhile the terminal Fed Funds rate for this cycle remains right around 5%, at the absolute bottom of the range that James Bullard said would be necessary to achieve an appropriately restrictive policy rate.

Risk assets responded in kind, with equities moving higher while credit spreads compressed. All sectors in the S&P 500 finished higher on the week, although energy lagged the rally thanks to falling oil prices. Credit spreads extended their recent tightening trend, pushing corporate bond prices higher. Investment grade spreads have come in by roughly 30 basis points in conjunction with the broad rally in risk assets (see the Chart of the Week for a time series).

Economic data was concentrated on Tuesday of last week due to the holiday. Highlights include:

- * Durable good orders for October exceeded expectations at +1.0% m/m
- * Initial jobless claims rose to 240k, the highest print since mid-August
- * S&P's Mfg. (47.6) and Svc. (46.1) PMIs declined more than expected
- * New home sales (632k) unexpectedly rebounded in October
- * U of M Consumer Sentiment (56.8) edged higher in the final November print

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.

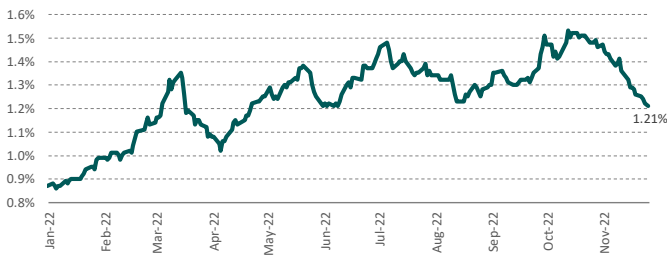
*Inflation - Inflation remains near 40yr highs as supply chain disruptions, labor shortages, and rising energy prices have impacted input costs for many businesses. Headline inflation eased lower over the summer thanks to falling energy prices, and core inflation decelerated in October.

Albion's Dashboard of Key Leading Economic Indicators as of 11/25/22

- Initial Jobless Claims (227k 4wk m/a) - Weaker: gradually increasing in Q4 after a September trough
- Conference Board LEI (-2.7% y/y) - Weaker: has declined significantly since peaking in Feb 2022
- Building Permits (1,512k) - Weaker: has declined since spring 2022 on rising mortgage rates
- Corporate Bond Spreads (1.21%) - Stronger: IG spreads have tightened since mid-October
- Treasury Yield Curves (82.2% 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 - US Investment Grade Corporate Credit Spreads (Index Avg)



Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	QTD	YTD	3y Cum.
S&P 500	4,026	1.6%	4.2%	12.6%	-14.3%	34.9%
Dow Jones Indus. Avg.	34,347	1.8%	5.2%	19.9%	-3.7%	30.2%
NASDAQ	11,226	0.7%	2.3%	6.3%	-27.7%	33.2%
S&P Midcap 400	2,560	2.0%	5.3%	16.4%	-8.7%	33.3%
Russell 2000 (Small Cap)	1,869	1.1%	1.3%	12.5%	-15.7%	19.6%
MSCI EAFE (Int'l Dev Mkt Eq)	1,963	2.2%	12.4%	18.4%	-13.3%	8.2%
MSCI EM (Emerging Mkt Eq)	941	-0.1%	11.1%	7.7%	-21.3%	-3.0%
MSCI World	2,704	1.7%	6.3%	13.9%	-15.1%	23.6%
S&P Global 1200	2,982	1.7%	6.9%	14.1%	-14.2%	24.7%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	QTD	YTD	3y Cum.
10y U.S. Treasuries	3.68%	1.1%	3.2%	1.3%	-15.8%	-11.2%
U.S. Bonds (Aggregate)	4.61%	1.1%	3.5%	2.1%	-12.8%	-7.7%
Global Bonds	3.55%	0.9%	5.0%	4.3%	-16.5%	-12.5%
U.S. Munis	3.65%	0.4%	4.1%	3.2%	-9.3%	-2.7%
U.S. Investment Grade Corp	5.34%	1.5%	5.1%	4.0%	-15.4%	-7.6%
U.S. High Yield Corporates	8.61%	1.1%	2.2%	4.8%	-10.6%	3.0%

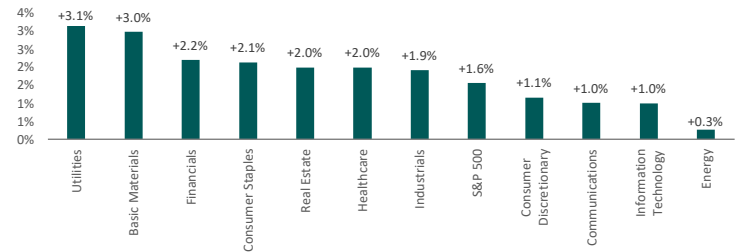
US Interest Rates	Levels (%)					
	11/25/22	11/18/22	10/31/22	9/30/22	12/31/21	11/25/19
2y Treasuries	4.45	4.53	4.48	4.28	0.73	1.61
10y Treasuries	3.68	3.83	4.05	3.83	1.51	1.76
30y Treasuries	3.73	3.93	4.16	3.78	1.90	2.20
Fed Funds (Effective Rate)	3.83	3.83	3.08	3.08	0.07	1.55
SOFR (USD)	3.80	3.80	3.05	2.98	0.05	1.56
30y Fixed Mortgage	6.54	6.56	7.08	6.70	3.11	3.66

Commodity Prices	Levels					
	11/25/22	11/18/22	10/31/22	9/30/22	12/31/21	11/25/19
Oil (WTI)	76.28	80.08	86.53	79.49	75.21	58.01
Gasoline	3.57	3.68	3.76	3.80	3.29	2.59
Natural Gas	7.02	6.30	6.36	6.77	3.73	2.53
Gold	1,755	1,751	1,634	1,661	1,829	1,455

Currency Crosses	Levels					
	11/25/22	11/18/22	10/31/22	9/30/22	12/31/21	11/25/19
\$ per £	1.21	1.19	1.15	1.12	1.35	1.29
\$ per €	1.04	1.03	0.99	0.98	1.14	1.10
¥ per \$	139.2	140.4	148.7	144.7	115.1	108.9
\$ per Bitcoin	16,497	16,637	20,406	19,425	46,334	7,214

Macroeconomic Data	Value	Date	Next Rel.	Cons Est
Fed Funds Target (Floor)	3.75%	11/25/22	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	3.7%
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	49.8
Consumer Confidence	102.5	10/31/22	11/29/22	100.0

Sector Total Returns for the Week Ending 11/25/22



YTD Sector Total Returns as of 11/25/22

