



Wealth Advisors,
Investment Managers

Weekly Market Recap - 12/02/22

Market Commentary

Weekly Recap:

Stocks and bonds rallied in unison last week, thanks largely to comments from Fed Chair Jerome Powell on Wednesday afternoon. Speaking at the Brookings Institute, Powell confirmed that the Fed might slow the pace of rate hikes as soon as the December FOMC meeting. Investors interpreted that to mean that the days of 75bp hikes were over. Futures markets quickly crystalized around a 50bp hike in December, and lowered the expected number of 25bp rate hikes in 1Q23 from 3 to 2.

The impact on bond prices was significant, bringing welcome relief to battered investment grade bondholders. The Treasury yield curve experienced a parallel shift lower by 18-19bp over the course of the week, and credit spreads compressed slightly, extending the tightening trend that began in mid-October. Yields on IG corporates have fallen by roughly 100bp in that time.

Equities got a boost from Powell's comments as well, particularly rate-sensitive growth stocks in the tech, consumer, and communications sectors. Dividend payers lagged the rally, particularly financials and energy as rates and oil prices dropped, respectively. Meanwhile, Chinese equities continued to move higher on hopes that public unrest would accelerate the removal of Beijing's "Zero Covid" policy.

Economic news was abundant last week. Housing metrics (prices, sales) were weak, manufacturing gauges point to a contraction in activity, and consumer confidence waned a bit. On the flip side, despite rising unemployment claims and a reduction in open jobs, the monthly nonfarm payroll report came in above expectations at +263k (see the Chart of the Week), while unemployment held steady at 3.7%.

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 17.5x 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 slightly below 5% for this cycle.

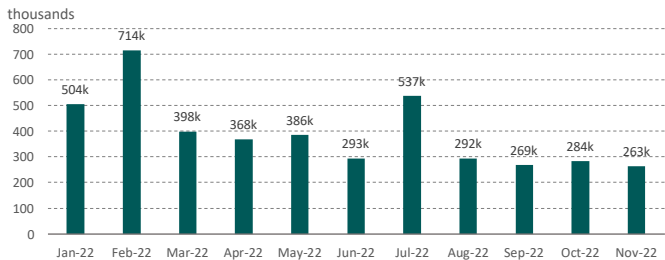
*Inflation - After reaching 40yr highs in spring of 2022, inflation has begun to moderate in recent months. Headline inflation eased over the summer on falling energy prices, and core inflation has followed suit in Q4. Goods inflation has fallen due to softening demand and excess inventory, while heavily lagged housing data is helping to keep services inflation elevated.

Albion's Dashboard of Key Leading Economic Indicators as of 12/02/22

- Initial Jobless Claims (229k 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 (1512k) - 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 (84.4% inv) - Weaker: most Treasury curve points are inverted
- Consumer Confidence (100.2) - Weaker: fading slightly in Q4 after a late summer rebound
- Real Final Sales (+1.3% 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 Payrolls



Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	QTD	YTD	3y Cum.
S&P 500	4,072	1.2%	-0.2%	13.9%	-13.3%	37.3%
Dow Jones Indus. Avg.	34,430	0.4%	-0.4%	20.4%	-3.3%	32.0%
NASDAQ	11,462	2.1%	0.0%	8.6%	-26.2%	37.0%
S&P Midcap 400	2,574	0.6%	-0.1%	17.1%	-8.1%	35.0%
Russell 2000 (Small Cap)	1,893	1.3%	0.3%	14.0%	-14.6%	22.3%
MSCI EAFE (Int'l Dev Mkt Eq)	1,983	1.1%	2.0%	19.7%	-12.4%	9.9%
MSCI EM (Emerging Mkt Eq)	974	3.5%	0.2%	11.5%	-18.5%	1.7%
MSCI World	2,733	1.1%	0.5%	15.2%	-14.1%	25.8%
S&P Global 1200	3,023	1.4%	0.3%	15.7%	-12.9%	27.2%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	QTD	YTD	3y Cum.
10y U.S. Treasuries	3.49%	1.9%	1.4%	3.2%	-14.2%	-8.9%
U.S. Bonds (Aggregate)	4.39%	1.5%	1.3%	3.7%	-11.4%	-6.0%
Global Bonds	3.42%	1.6%	1.9%	5.9%	-15.1%	-11.0%
U.S. Munis	3.47%	1.1%	0.5%	4.3%	-8.3%	-1.7%
U.S. Investment Grade Corp	5.12%	1.7%	1.7%	5.8%	-14.0%	-5.7%
U.S. High Yield Corporates	8.38%	0.9%	0.9%	5.8%	-9.8%	3.8%

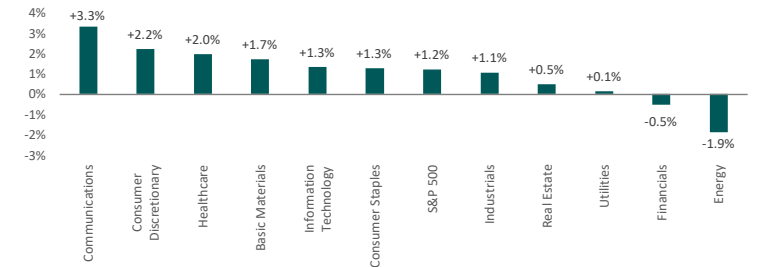
US Interest Rates	Levels (%)					
	12/2/22	11/25/22	11/30/22	9/30/22	12/31/21	12/2/19
2y Treasuries	4.27	4.45	4.31	4.28	0.73	1.60
10y Treasuries	3.49	3.68	3.61	3.83	1.51	1.82
30y Treasuries	3.55	3.73	3.74	3.78	1.90	2.27
Fed Funds (Effective Rate)	3.83	3.83	3.83	3.08	0.07	1.56
SOFR (USD)	3.81	3.80	3.82	2.98	0.05	1.63
30y Fixed Mortgage	6.39	6.54	6.54	6.70	3.11	3.68

Commodity Prices	Levels					
	12/2/22	11/25/22	11/30/22	9/30/22	12/31/21	12/2/19
Oil (WTI)	79.98	76.28	80.55	79.49	75.21	55.96
Gasoline	3.43	3.57	3.47	3.80	3.29	2.59
Natural Gas	6.28	7.02	6.93	6.77	3.73	2.33
Gold	1,798	1,755	1,769	1,661	1,829	1,462

Currency Crosses	Levels					
	12/2/22	11/25/22	11/30/22	9/30/22	12/31/21	12/2/19
\$ per €	1.23	1.21	1.21	1.12	1.35	1.29
\$ per ¥	1.05	1.04	1.04	0.98	1.14	1.11
¥ per \$	134.3	139.2	138.1	144.7	115.1	109.0
\$ per Bitcoin	17,015	16,497	17,105	19,425	46,334	7,319

Macroeconomic Data	Value	Date	Next Rel. Cons Est	
			Next Rel.	Cons Est
Fed Funds Target (Floor)	3.75%	12/02/22	12/14/22	4.25%
Inflation (Core PCE Deflator)	5.0%	10/31/22	12/23/22	-
Inflation (Headline CPI)	7.7%	10/31/22	12/13/22	7.3%
Unemployment (U-3)	3.7%	11/30/22	01/06/23	-
GDP Growth (Q/Q SAAR)	2.9%	09/30/22	01/26/23	0.5%
ISM Manufacturing PMI	49.0	11/30/22	01/04/23	-
Consumer Confidence	100.2	11/30/22	12/21/22	-

Sector Total Returns for the Week Ending 12/02/22



YTD Sector Total Returns as of 12/02/22

