

Market Commentary
Weekly Recap:

Risk assets struggled last week as concerns about global economic growth intensified. Oil fell nearly \$9/barrel to its lowest level since December of last year. Meanwhile, a higher than expected Producer Price Inflation (PPI) print for November pushed short rates higher. While PPI remains well off its highs on a y/y basis (see the Chart of the Week), the sequential reacceleration in core (ex food & energy) PPI to +0.4% m/m was noteworthy, particularly in the context of recent comments by various FOMC members about the inflation fight being far from over.

Rising short-term yields deepened the Treasury curve inversion and sent bond prices lower for the first time in more than month. Nevertheless, futures markets remain firmly coalesced around a +50bp rate hike this week, with the February 1st meeting considered to be "in play" for another +50bp hike, or a further deceleration to only +25bp. Credit spreads remained stable on the week, pushing small price declines through to US corporate bonds.

Domestic equity markets endured a week of rough performance, with most benchmarks down somewhere in the 3% to 5% range. Small caps underperformed. International stocks were better, particular E/M which was boosted by another week of strong performance from Chinese equities. Since bottoming out at the end of October, the MSCI China index is up nearly 40% in just six weeks on growing optimism that Beijing's Zero Covid policy is being replaced by less draconian containment strategies.

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 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 12/09/22

- Initial Jobless Claims (230k 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 (86.7% 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 - PPI Final Demand (y/y change)

Weekly Market Recap - 12/09/22
Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	QTD	YTD	3y Cum.
S&P 500	3,934	-3.3%	-3.5%	10.1%	-16.2%	31.7%
Dow Jones Indus. Avg.	33,476	-2.7%	-3.2%	17.1%	-6.0%	27.7%
NASDAQ	11,005	-4.0%	-4.0%	4.3%	-29.1%	30.7%
S&P Midcap 400	2,470	-4.0%	-4.1%	12.4%	-11.8%	28.4%
Russell 2000 (Small Cap)	1,797	-5.1%	-4.7%	8.2%	-18.9%	14.5%
MSCI EAFE (Int'l Dev Mkt Eq)	1,979	-0.2%	1.8%	19.4%	-12.5%	8.8%
MSCI EM (Emerging Mkt Eq)	978	0.5%	0.7%	12.0%	-18.1%	1.1%
MSCI World	2,663	-2.5%	-2.1%	12.2%	-16.3%	21.7%
S&P Global 1200	2,947	-2.5%	-2.2%	12.9%	-15.1%	23.1%

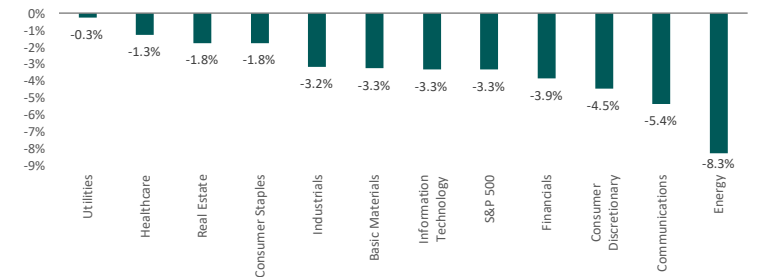
Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	QTD	YTD	3y Cum.
10y U.S. Treasuries	3.58%	-0.8%	0.5%	2.3%	-14.9%	-9.8%
U.S. Bonds (Aggregate)	4.49%	-0.4%	0.9%	3.2%	-11.8%	-6.6%
Global Bonds	3.47%	-0.1%	1.8%	5.9%	-15.2%	-11.3%
U.S. Munis	3.42%	0.3%	0.8%	4.7%	-8.0%	-1.6%
U.S. Investment Grade Corp	5.20%	-0.3%	1.4%	5.6%	-14.2%	-6.4%
U.S. High Yield Corporates	8.52%	-0.2%	0.7%	5.6%	-10.0%	3.1%

US Interest Rates	Levels (%)					
	12/9/22	12/2/22	11/30/22	9/30/22	12/31/21	12/9/19
2y Treasuries	4.34	4.27	4.31	4.28	0.73	1.61
10y Treasuries	3.58	3.49	3.61	3.83	1.51	1.82
30y Treasuries	3.56	3.55	3.74	3.78	1.90	2.25
Fed Funds (Effective Rate)	3.83	3.83	3.83	3.08	0.07	1.55
SOFR (USD)	3.80	3.81	3.82	2.98	0.05	1.56
30y Fixed Mortgage	6.28	6.39	6.54	6.70	3.11	3.68

Commodity Prices	Levels					
	12/9/22	12/2/22	11/30/22	9/30/22	12/31/21	12/9/19
Oil (WTI)	71.02	79.98	80.55	79.49	75.21	59.02
Gasoline	3.30	3.43	3.47	3.80	3.29	2.57
Natural Gas	6.25	6.28	6.93	6.77	3.73	2.23
Gold	1,797	1,798	1,769	1,661	1,829	1,462

Currency Crosses	Levels					
	12/9/22	12/2/22	11/30/22	9/30/22	12/31/21	12/9/19
\$ per E	1.23	1.23	1.21	1.12	1.35	1.31
\$ per €	1.05	1.05	1.04	0.98	1.14	1.11
¥ per \$	136.6	134.3	138.1	144.7	115.1	108.6
\$ per Bitcoin	17,113	17,015	17,105	19,425	46,334	7,357

Macroeconomic Data	Value	Date	Next Rel. Cons Est	
			Date	Value
Fed Funds Target (Floor)	3.75%	12/09/22	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	100.5

Sector Total Returns for the Week Ending 12/09/22

YTD Sector Total Returns as of 12/09/22
