



Wealth Advisors,  
Investment Managers

# Weekly Market Recap - 12/23/22

## Market Commentary

### Weekly Recap:

Rates took center stage once again last week, rising around the world after the Bank of Japan surprised markets by increasing the allowable trading range on 10-year Japanese government bonds by 25bp. Investors interpreted the move as a first step towards what could become a gradual normalization of Japanese monetary policy after many years of ultra accommodative rates and yield curve control.

In the US, the Treasury market responded instantly (even at 10:00 pm Eastern time!) as yields rose by 10-12bp across the curve due to shifting global relative value. By the end of the week, belly and long end rates in the US were up by roughly 25-30bp depending on the curve point. Meanwhile, Fed Funds Futures markets priced in a 30% chance of a 3rd rate hike next year (at least 2 were already expected).

The coordinated move higher in rates had a predictable effect on US equities, as sectors and benchmarks traded in line with their duration exposure. Growth stocks significantly underperformed, pushing the Nasdaq lower, while shorter duration dividend stocks (particularly in the energy sector) drove gains in the Dow. The S&P fell in the middle, as it often does in rate-driven markets, posting a small loss on the week.

Economic data was abundant, and mixed. On the positive side, the Conference Board's Consumer Confidence gauge (108.3) staged a sharp rebound to reach an 8-month high, and initial jobless claims (216k) continued their recent run of strength. However, housing metrics remain weak, including the NAHB Housing Market Index which fell to 31 (barely above pandemic lows), existing home sales (-7.7% m/m), and new residential building permits (-11.2% m/m). In addition, the Conference Board's Leading Economic Index (LEI) declined for the 9th consecutive month, reaching -4.5% on a y/y basis. Historically such levels have been associated with the imminent onset of recession (Chart of the Week).

### 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 in two additional 25bp hikes in 2023, with a "terminal" Fed Funds rate slightly below 5% for this cycle.

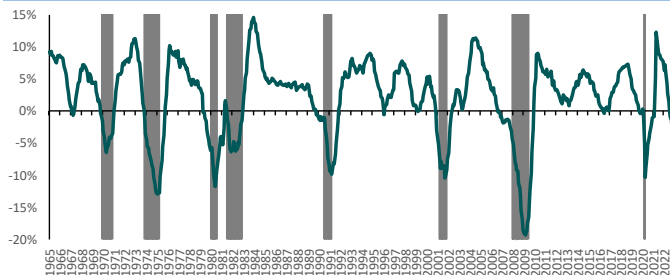
\*Inflation - After reaching 40yr highs in spring of 2022, inflation has begun to moderate in recent months. Headline inflation eased over the summer on falling energy prices, and core inflation has followed suit in Q4. Goods inflation has fallen due to softening demand and excess inventory, while heavily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

### Albion's Dashboard of Key Leading Economic Indicators as of 12/23/22

- Initial Jobless Claims (222k 4wk m/a) - Steady: settled into low-200k range after a summer peak
- Conference Board LEI (-4.5% y/y) - Weaker: has declined significantly since peaking in Feb 2022
- Building Permits (1,351k) - Weaker: has declined since spring 2022 on rising mortgage rates
- Corporate Bond Spreads (121%) - Steady: IG spreads have stabilized near their long run average
- Treasury Yield Curves (84.4% inv) - Weaker: most Treasury curve points are inverted
- Consumer Confidence (108.3) - Stronger: rebound sharply in December to an 8-month high
- Real Final Sales (+1.5% y/y) - Stronger: rebounded in Q3 '22, growth rate still far below cycle peak

Legend: ● = All Clear; ● = Caution; ● = Strong Warning

### Chart of the Week - Conference Board US Leading Economic Index (y/y change)



## Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	QTD	YTD	3y Cum.
S&P 500	3,845	-0.2%	-5.7%	7.7%	-18.0%	25.2%
Dow Jones Indus. Avg.	33,204	0.9%	-3.9%	16.2%	-6.7%	23.8%
NASDAQ	10,498	-1.9%	-8.4%	-0.5%	-32.3%	20.2%
S&P Midcap 400	2,435	0.8%	-5.4%	10.9%	-12.9%	23.5%
Russell 2000 (Small Cap)	1,761	-0.1%	-6.6%	6.1%	-20.5%	9.2%
MSCI EAFE (Int'l Dev Mkt Eq)	1,944	0.4%	0.0%	17.3%	-14.1%	4.6%
MSCI EM (Emerging Mkt Eq)	955	-0.2%	-1.7%	9.4%	-20.0%	-6.7%
MSCI World	2,605	0.0%	-4.2%	9.8%	-18.1%	16.1%
S&P Global 1200	2,887	0.1%	-4.1%	10.6%	-16.8%	17.3%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	QTD	YTD	3y Cum.
10y U.S. Treasuries	3.75%	-2.0%	-0.6%	1.2%	-15.8%	-10.0%
U.S. Bonds (Aggregate)	4.56%	-1.5%	0.2%	2.5%	-12.4%	-7.1%
Global Bonds	3.64%	-0.8%	0.9%	4.9%	-16.0%	-12.0%
U.S. Munis	3.50%	-0.5%	0.6%	4.4%	-8.3%	-2.0%
U.S. Investment Grade Corp	5.32%	-1.6%	0.3%	4.4%	-15.2%	-7.5%
U.S. High Yield Corporates	8.69%	-0.4%	0.3%	5.2%	-10.4%	1.2%

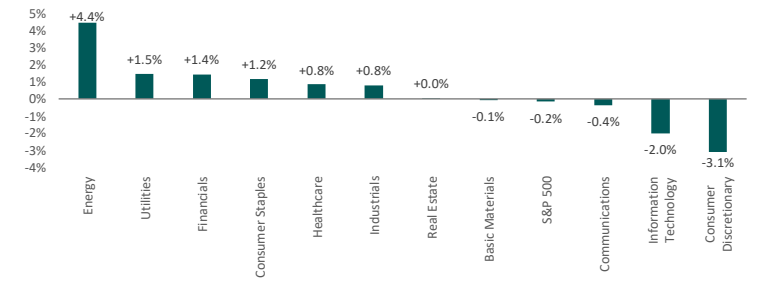
US Interest Rates	Levels (%)					
	12/23/22	12/16/22	11/30/22	9/30/22	12/31/21	12/23/19
2y Treasuries	4.32	4.18	4.31	4.28	0.73	1.65
10y Treasuries	3.75	3.48	3.61	3.83	1.51	1.93
30y Treasuries	3.82	3.55	3.74	3.78	1.90	2.36
Fed Funds (Effective Rate)	4.33	4.33	3.83	3.08	0.07	1.55
SOFR (USD)	4.30	4.32	3.82	2.98	0.05	1.52
30y Fixed Mortgage	6.20	6.17	6.54	6.70	3.11	3.73

Commodity Prices	Levels					
	12/23/22	12/16/22	11/30/22	9/30/22	12/31/21	12/23/19
Oil (WTI)	79.56	74.29	80.55	79.49	75.21	60.52
Gasoline	3.10	3.16	3.47	3.80	3.29	2.55
Natural Gas	5.08	6.60	6.93	6.77	3.73	2.21
Gold	1,798	1,793	1,769	1,661	1,829	1,486

Currency Crosses	Levels					
	12/23/22	12/16/22	11/30/22	9/30/22	12/31/21	12/23/19
\$ per E	1.21	1.21	1.21	1.12	1.35	1.29
\$ per €	1.06	1.06	1.04	0.98	1.14	1.11
¥ per \$	132.9	136.6	138.1	144.7	115.1	109.4
\$ per Bitcoin	16,811	16,838	17,105	19,425	46,334	7,320

Macroeconomic Data	Value	Date	Next Rel.	Cons Est	Data Sources:
Fed Funds Target (Floor)	4.25%	12/23/22	02/01/23	4.50%	
Inflation (Core PCE Deflator)	4.7%	11/30/22	01/27/23	-	
Inflation (Headline CPI)	7.1%	11/30/22	01/12/23	6.7%	
Unemployment (U-3)	3.7%	11/30/22	01/06/23	3.7%	
GDP Growth (Q/Q SAAR)	3.2%	09/30/22	01/26/23	1.1%	
ISM Manufacturing PMI	49.0	11/30/22	01/04/23	48.5	
Consumer Confidence	108.3	12/23/22	01/31/23	-	

### Sector Total Returns for the Week Ending 12/23/22



### YTD Sector Total Returns as of 12/23/22

