



Wealth Advisors,  
Investment Managers

# Weekly Market Recap - 01/13/23

## Market Commentary

### Weekly Recap:

Steadily moderating inflation data helped push rates lower across the curve last week, which in turn drove P/E multiple expansion in stocks. CPI data for December was in line with consensus expectations across the board:

- \* Headline CPI declined 0.1% sequentially and fell to 6.5% y/y
- \* Core (ex food & energy) CPI was +0.3% m/m and fell to 5.7% y/y

Rates moved lower as the curve became slightly more inverted, pushing Treasury and other bond prices higher. After an extremely challenging 2022, fixed income is off to a strong start in 2023, with yields remaining attractive even as solid price gains have been realized in the first two weeks of the year.

Equities followed suit as falling risk-free rates enabled P/E multiple expansion. Longer-duration growth stocks were the biggest beneficiaries, driving significant outperformance by the Nasdaq. Defensive sectors lagged as utilities, staples, and healthcare stocks were used as a source of funds for portfolio re-risking.

Other economic news was mixed last week. The NFIB's Small Business Optimism Index fell to 89.8, very close to the 9-year lows reached last summer. Labor markets continue to show signs of renewed strength as initial jobless claims fell to 205k, the lowest print since September. And finally, the University of Michigan's Consumer Sentiment gauge rose for the second straight month in preliminary January data, with improvements in both the current conditions and expectations components. Near-term (1y) inflation expectations fell 40bp to +4.0%, while longer-term (5-10y) inflation expectations remain solidly anchored at +3.0%.

### 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 2022's P/E multiple compression was driven by rates, rather than an expansion of the equity risk premium.

\*Interest Rates - Rates rose across the curve in 2022 in response to a dramatic pivot 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.

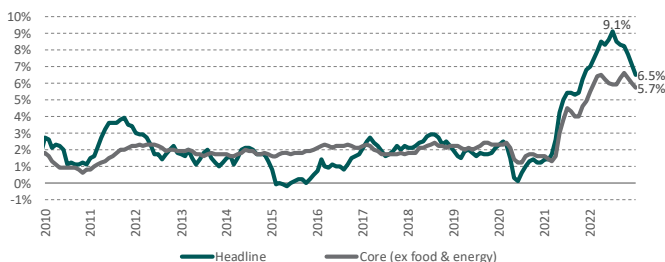
\*Inflation - After reaching 40yr highs in spring of 2022, inflation has begun to moderate in recent months. Headline inflation eased over the summer on falling energy prices, and core inflation followed suit in Q4. Goods inflation has fallen due to softening demand and excess inventory, while heavily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

### Albion's Dashboard of Key Leading Economic Indicators as of 01/13/23

- Initial Jobless Claims (213k 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 (1.18%) - 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: rebounded 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 - Headline and Core CPI (y/y change)



## Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	QTD	YTD	3y Cum.
S&P 500	3,999	2.7%	4.2%	4.2%	4.2%	27.7%
Dow Jones Indus. Avg.	34,303	2.0%	3.5%	3.5%	3.5%	26.3%
NASDAQ	11,079	4.8%	5.9%	5.9%	5.9%	22.3%
S&P Midcap 400	2,581	3.7%	6.2%	6.2%	6.2%	30.6%
Russell 2000 (Small Cap)	1,887	5.3%	7.2%	7.2%	7.2%	17.3%
MSCI EAFE (Int'l Dev Mkt Eq)	2,080	4.3%	7.1%	7.1%	7.1%	11.3%
MSCI EM (Emerging Mkt Eq)	1,030	4.2%	7.7%	7.7%	7.7%	-2.3%
MSCI World	2,736	3.3%	5.2%	5.2%	5.2%	20.0%
S&P Global 1200	3,037	3.2%	5.4%	5.4%	5.4%	21.5%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	QTD	YTD	3y Cum.
10y U.S. Treasuries	3.50%	0.6%	2.8%	2.8%	2.8%	-8.8%
U.S. Bonds (Aggregate)	4.32%	0.9%	2.7%	2.7%	2.7%	-5.8%
Global Bonds	3.46%	1.9%	3.3%	3.3%	3.3%	-9.7%
U.S. Munis	3.18%	1.1%	2.3%	2.3%	2.3%	-0.8%
U.S. Investment Grade Corp	5.03%	1.4%	3.4%	3.4%	3.4%	-5.7%
U.S. High Yield Corporates	8.10%	1.6%	3.8%	3.8%	3.8%	3.4%

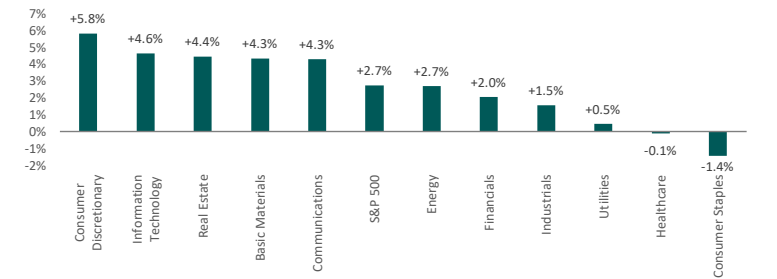
US Interest Rates	Levels (%)					
	1/13/23	1/6/23	12/30/22	12/30/22	12/30/22	1/13/20
2y Treasuries	4.23	4.25	4.43	4.43	4.43	1.58
10y Treasuries	3.50	3.56	3.87	3.87	3.87	1.85
30y Treasuries	3.61	3.69	3.96	3.96	3.96	2.30
Fed Funds (Effective Rate)	4.33	4.33	4.33	4.33	4.33	1.54
SOFR (USD)	4.30	4.31	4.30	4.30	4.30	1.54
30y Fixed Mortgage	6.18	6.44	6.41	6.41	6.41	3.64

Commodity Prices	Levels					
	1/13/23	1/6/23	12/30/22	12/30/22	12/30/22	1/13/20
Oil (WTI)	79.86	73.77	80.26	80.26	80.26	58.08
Gasoline	3.29	3.29	3.20	3.20	3.20	2.58
Natural Gas	3.42	3.71	4.48	4.48	4.48	2.18
Gold	1,920	1,866	1,824	1,824	1,824	1,548

Currency Crosses	Levels					
	1/13/23	1/6/23	12/30/22	12/30/22	12/30/22	1/13/20
\$ per €	1.22	1.21	1.21	1.21	1.21	1.30
\$ per ¥	1.08	1.06	1.07	1.07	1.07	1.11
¥ per \$	127.9	132.1	131.1	131.1	131.1	110.0
\$ per Bitcoin	19,814	16,928	16,579	16,579	16,579	8,131

Macroeconomic Data	Value	Date	Next Rel.	Cons Est	Data Sources:
Fed Funds Target (Floor)	4.25%	01/13/23	02/01/23	4.50%	
Inflation (Core PCE Deflator)	4.7%	11/30/22	01/27/23	-	
Inflation (Headline CPI)	6.5%	12/31/22	02/14/23	-	
Unemployment (U-3)	3.5%	12/31/22	02/03/23	-	
GDP Growth (Q/Q SAAR)	3.2%	09/30/22	01/26/23	1.2%	
ISM Manufacturing PMI	48.4	12/31/22	02/01/23	-	
Consumer Confidence	108.3	12/31/22	01/31/23	-	

### Sector Total Returns for the Week Ending 01/13/23



### YTD Sector Total Returns as of 01/13/23

