

**Market Commentary**
**Weekly Recap:**

Risk assets were mixed in the holiday-shortened week as a raft of softening economic data renewed concerns about a US recession:

- \* Retail Sales fell 1.1% in December, below consensus estimates
- \* US Industrial Production fell 0.7% in December, also below consensus
- \* US Capacity Utilization dropped to 78.8%, the lowest level in 12 months
- \* Empire Manufacturing (-32.9) fell to its lowest level since May of 2020
- \* US housing starts (-1.4%) and residential building permits (-1.6%) fell in December
- \* The NAHB Housing Market Index (35) remains deeply in contraction territory

Amid these signs of a slowing economy, inflation pressures continue to ease despite an extremely strong labor market. Producer Price Inflation (PPI) was -0.5% m/m in December and fell to +6.2% y/y, while Core PPI (ex food & energy) was just +0.1% m/m and dropped to +5.5% y/y. Meanwhile, initial jobless claims (a leading labor market indicator) fell to 190k, the first sub-200k print since September.

Bonds were mostly better bid on the soft economic data, with Treasury yields falling in the front end and belly, while IG credit spreads were stable. High yield spreads widened on the uptick in risk aversion.

Stocks were mixed: large cap tech continued its early-2023 run of outperformance thanks to falling discount rates, while cyclicals (ex energy) and small caps were mostly lower. International stocks outperformed the US yet again, continuing another early-2023 trend. Chinese equities posted their 4th straight week of gains even as a Covid wave has infected 80% of the population by some reports, leaving the MSCI China Index up 13.85% YTD.

**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.

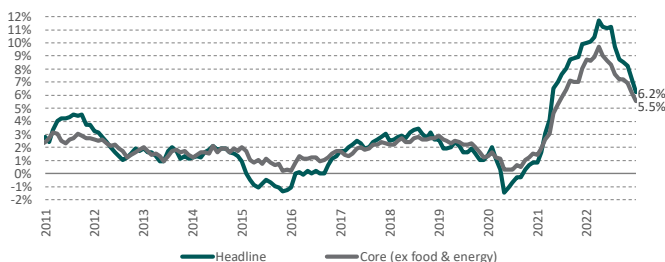
\*Interest Rates - Rates rose across the curve in 2022 in response to a dramatic pivot in monetary policy. Fed Fund Futures are pricing in two additional 25bp hikes in 2023, with a "terminal" Fed Funds rate slightly below 5% for this cycle.

\*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 01/20/23**

- Initial Jobless Claims (206k 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 (1,330k) - Weaker: has declined since spring 2022 on rising mortgage rates
- Corporate Bond Spreads (1.15%) - Steady: IG spreads have stabilized near their long run average
- Treasury Yield Curves (82.2% 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 - Producer Price Inflation (y/y change)**

**Weekly Market Recap - 01/20/23**
**Market Data**

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	QTD	YTD	3y Cum.
S&P 500	3,973	-0.6%	3.5%	3.5%	3.5%	25.3%
Dow Jones Indus. Avg.	33,375	-2.7%	0.8%	0.8%	0.8%	21.0%
NASDAQ	11,140	0.6%	6.5%	6.5%	6.5%	21.5%
S&P Midcap 400	2,558	-0.9%	5.3%	5.3%	5.3%	27.8%
Russell 2000 (Small Cap)	1,867	-1.0%	6.1%	6.1%	6.1%	14.1%
MSCI EAFE (Int'l Dev Mkt Eq)	2,080	0.0%	7.1%	7.1%	7.1%	10.3%
MSCI EM (Emerging Mkt Eq)	1,036	0.6%	8.4%	8.4%	8.4%	-1.8%
MSCI World	2,725	-0.4%	4.8%	4.8%	4.8%	18.2%
S&P Global 1200	3,028	-0.3%	5.1%	5.1%	5.1%	19.8%

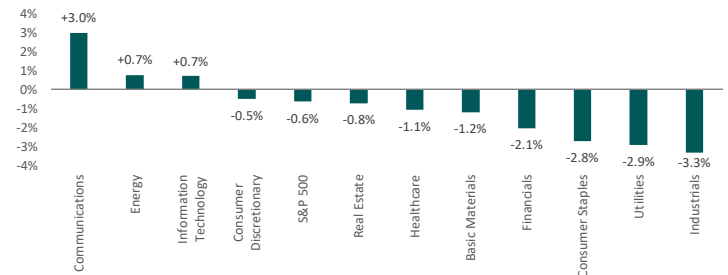
Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	QTD	YTD	3y Cum.
10y U.S. Treasuries	3.48%	0.1%	3.0%	3.0%	3.0%	-8.8%
U.S. Bonds (Aggregate)	4.29%	0.1%	2.9%	2.9%	2.9%	-5.7%
Global Bonds	3.43%	0.0%	3.3%	3.3%	3.3%	-9.8%
U.S. Munis	3.09%	0.5%	2.8%	2.8%	2.8%	-0.6%
U.S. Investment Grade Corp	5.00%	0.1%	3.5%	3.5%	3.5%	-5.9%
U.S. High Yield Corporates	8.19%	-0.3%	3.5%	3.5%	3.5%	2.9%

US Interest Rates	Levels (%)					
	1/20/23	1/13/23	12/30/22	12/30/22	12/30/22	1/20/20
2y Treasuries	4.17	4.23	4.43	4.43	4.43	1.56
10y Treasuries	3.48	3.50	3.87	3.87	3.87	1.82
30y Treasuries	3.65	3.61	3.96	3.96	3.96	2.28
Fed Funds (Effective Rate)	4.33	4.33	4.33	4.33	4.33	1.55
SOFR (USD)	4.30	4.30	4.30	4.30	4.30	1.54
30y Fixed Mortgage	5.95	6.18	6.41	6.41	6.41	3.65

Commodity Prices	Levels					
	1/20/23	1/13/23	12/30/22	12/30/22	12/30/22	1/20/20
Oil (WTI)	81.31	79.86	80.26	80.26	80.26	58.54
Gasoline	3.41	3.29	3.20	3.20	3.20	2.54
Natural Gas	3.17	3.42	4.48	4.48	4.48	2.00
Gold	1,926	1,920	1,824	1,824	1,824	1,561

Currency Crosses	Levels					
	1/20/23	1/13/23	12/30/22	12/30/22	12/30/22	1/20/20
\$ per €	1.24	1.22	1.21	1.21	1.21	1.30
\$ per ¥	1.09	1.08	1.07	1.07	1.07	1.11
¥ per \$	129.6	127.9	131.1	131.1	131.1	110.2
€ per Bitcoin	22,318	19,814	16,579	16,579	16,579	8,672

Macroeconomic Data	Value	Date	Next Rel.	Cons Est	Data Sources:
Fed Funds Target (Floor)	4.25%	01/20/23	02/01/23	4.50%	
Inflation (Core PCE Deflator)	4.7%	11/30/22	01/27/23	4.4%	
Inflation (Headline CPI)	6.5%	12/31/22	02/14/23	-	
Unemployment (U-3)	3.5%	12/31/22	02/03/23	3.6%	
GDP Growth (Q/Q SAAR)	3.2%	09/30/22	01/26/23	2.0%	
ISM Manufacturing PMI	48.4	12/31/22	02/01/23	48.2	
Consumer Confidence	108.3	12/31/22	01/31/23	109.3	

**Sector Total Returns for the Week Ending 01/20/23**

**YTD Sector Total Returns as of 01/20/23**
