



Wealth Advisors,  
Investment Managers

## Market Commentary

### Weekly Recap:

US equities had another strong week, particularly the Nasdaq which has benefitted from a sharp rebound in mega-cap technology stocks. After posting a 4.3% return last week, the Nasdaq is already up more than 11% so far in 2023. From a sector standpoint, 2023 returns have been clustered by style: growth sectors (tech, consumer discretionary, and comms) have outperformed, while traditional defensives (utilities, staples, and healthcare) have been used as a source of funds and have underperformed as investors have looked to add risk.

Bond markets were relatively quiet last week. The Treasury yield curve pivoted slightly, with short rates rising a few basis points while yields in the belly and long end fell by a similar amount. Credit spreads continued their slow grind tighter, pushing corporate bond prices higher. IG spreads have now tightened by roughly 40bp since peaking above 150bp in October of last year (see the Chart of the Week for a time series).

Economic data released last week reinforced existing trends: slowing manufacturing activity, moderating inflation, strong labor markets, and a resilient consumer.

- \* S&P's US Mfg (46.8) and Svcs (46.6) PMIs remain in contraction territory
- \* Fed surveys (Philly, KC, Richmond, and Chicago) also remain in contraction
- \* Headline (+0.1% m/m) and core (+0.3% m/m) PCE deflators were modest
- \* Initial jobless claims fell to 186k, the lowest level since April of 2022
- \* U of M consumer sentiment (64.9) was revised slightly higher for January
- \* U of M inflation expectations were revised lower (1y = 3.9%; 5-10y = 2.9%)

### Albion's "Four Pillars":

\*Economy & Earnings - The US economy enjoyed a strong second half of 2022, but corporate operating margins have been gradually falling as labor and input cost pressures bite. 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 18x 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.

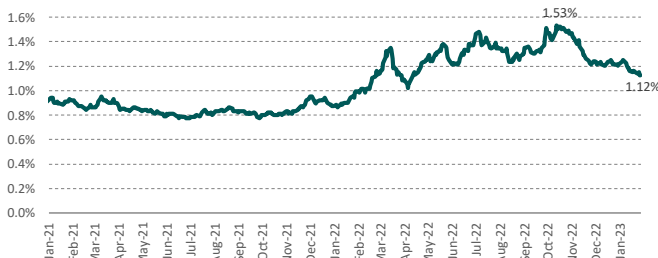
\*Inflation - After reaching 40yr highs in spring of 2022, inflation has begun to moderate in recent months. Headline inflation eased over the summer on falling energy prices, and core inflation followed suit in Q4. Goods inflation has fallen due to softening demand and excess inventory, while heavily 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 01/27/23

- Initial Jobless Claims (198k 4wk m/a) - Steady: settled into low-200k range after a summer peak
- Conference Board LEI (-6.0% y/y) - Weaker: has declined significantly since peaking in Feb 2022
- Building Permits (1,337k) - Weaker: has declined since spring 2022 on rising mortgage rates
- Corporate Bond Spreads (1.12%) - Stronger: IG spreads have tightened 40bp since summer of 2022
- 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 (+1.3% y/y) - Steady: below-trend growth in Q3 and Q4 of 2022

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

### Chart of the Week - US Investment Grade Credit Spreads (Index Average)



## Weekly Market Recap - 01/27/23

### Market Data

Equity Indices	Close	Index Total Returns (%)			
		1 Week	MTD	YTD	3y Cum.
S&P 500	4,071	2.5%	6.1%	6.1%	31.8%
Dow Jones Indus. Avg.	33,978	1.8%	2.6%	2.6%	26.7%
NASDAQ	11,622	4.3%	11.1%	11.1%	30.2%
S&P Midcap 400	2,619	2.4%	7.9%	7.9%	34.7%
Russell 2000 (Small Cap)	1,911	2.4%	8.6%	8.6%	20.7%
MSCI EAFE (Int'l Dev Mkt Eq)	2,109	1.4%	8.6%	8.6%	14.6%
MSCI EM (Emerging Mkt Eq)	1,051	1.4%	10.0%	10.0%	3.5%
MSCI World	2,786	2.2%	7.1%	7.1%	23.8%
S&P Global 1200	3,094	2.2%	7.4%	7.4%	25.6%

Fixed Income	Yield	Index Total Returns (%)			
		1 Week	MTD	YTD	3y Cum.
10y U.S. Treasuries	3.50%	-0.2%	2.8%	2.8%	-10.9%
U.S. Bonds (Aggregate)	4.31%	0.1%	3.0%	3.0%	-6.6%
Global Bonds	3.47%	0.0%	3.3%	3.3%	-10.7%
U.S. Munis	3.10%	0.0%	2.8%	2.8%	-1.2%
U.S. Investment Grade Corp	5.00%	0.2%	3.8%	3.8%	-6.8%
U.S. High Yield Corporates	8.11%	0.4%	3.9%	3.9%	4.3%

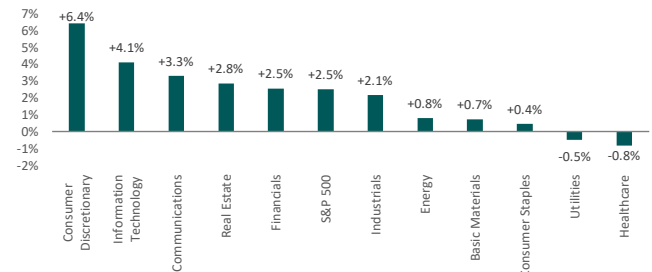
US Interest Rates	Levels (%)				
	1/27/23	1/20/23	12/30/22	12/30/22	1/27/20
2y Treasuries	4.20	4.17	4.43	4.43	1.44
10y Treasuries	3.50	3.48	3.87	3.87	1.61
30y Treasuries	3.62	3.65	3.96	3.96	2.06
Fed Funds (Effective Rate)	4.33	4.33	4.33	4.33	1.55
SOFR (USD)	4.30	4.30	4.30	4.30	1.53
30y Fixed Mortgage	5.95	5.95	6.41	6.41	3.60

Commodity Prices	Levels				
	1/27/23	1/20/23	12/30/22	12/30/22	1/27/20
Oil (WTI)	79.68	81.31	80.26	80.26	53.14
Gasoline	3.51	3.41	3.20	3.20	2.51
Natural Gas	3.11	3.17	4.48	4.48	1.90
Gold	1,928	1,926	1,824	1,824	1,582

Currency Crosses	Levels				
	1/27/23	1/20/23	12/30/22	12/30/22	1/27/20
\$ per £	1.24	1.24	1.21	1.21	1.31
\$ per €	1.09	1.09	1.07	1.07	1.10
¥ per \$	129.9	129.6	131.1	131.1	108.9
\$ per Bitcoin	23,092	22,318	16,579	16,579	N/A N/A

Macroeconomic Data	Value	Date	Next Rel.	Data Sources:
Fed Funds Target (Floor)	4.25%	01/27/23	02/01/23	Bloomberg, FactSet
Inflation (Core PCE Deflator)	4.4%	12/31/22	02/24/23	
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)	2.9%	12/31/22	01/26/23	
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 01/27/23



### YTD Sector Total Returns as of 01/27/23

