



Wealth Advisors,
Investment Managers

Market Commentary

Weekly Recap:

Financial markets had a challenging week after the previous Friday's blowout Nonfarm Payroll report (+517k) caused investors to recalibrate their expectations for addition rate hikes this year. Going into the report on the morning of February 3rd, futures markets were pricing in just one additional 25bp hike at the March meeting. Afterwards, investors immediately priced in another 25bp hike at the May meeting, as well as roughly 50/50 odds of one more over the summer.

Bond yields rose across the curve in response, making it a challenging week for fixed income. Credit spreads were largely stable, resulting in similar performance between Treasuries and US corporates.

Equity markets responded in predictable fashion. The prospect of additional rate hikes in combination with somewhat lackluster Q4 earnings (in the aggregate, at least) sent stock prices lower over the course of last week, with more rate-sensitive growth sectors feeling the greatest selling pressure.

In the aftermath of the previous Friday's NFP report, incoming economic data was fairly sparse last week. Initial jobless claims remained below 200k for the 4th straight week. Meanwhile, the University of Michigan's Consumer Sentiment gauge rose to 66.4 in the preliminary February print (from 64.9 in January), with the gains driven by improvements in the current conditions component. Long term (5-10yr) consumer inflation expectations remain well anchored at 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 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 a total of three 25bp hikes in 2023, with a "terminal" Fed Funds policy rate of roughly 5% for this cycle.

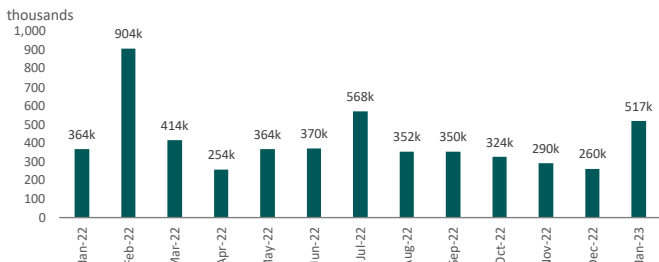
*Inflation - After reaching 40yr highs in spring of 2022, inflation has begun to moderate in recent months. Headline inflation eased over the summer on falling energy prices, and core inflation followed suit in Q4. Goods inflation has fallen due to softening demand and excess inventory, while heavily 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 02/10/23

- Initial Jobless Claims (189k 4wk m/a) - Stronger: below 200k/wk for the first time in several months
- 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 (1.11%) - Stronger: IG spreads have tightened 40bp since October 2022
- Treasury Yield Curves (86.7% inv) - Weaker: most Treasury curve points are inverted
- Consumer Confidence (107.1) - Stronger: trending higher as inflation pressures have eased
- 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 Nonfarm Payrolls Added (m/m net change)



Weekly Market Recap - 02/10/23

Market Data

| Equity Indices | Close | Index Total Returns (%) | | | | |
|------------------------------|--------|-------------------------|-------|-------|--------|---------|
| | | 1 Week | MTD | YTD | 1 Year | 3y Cum. |
| S&P 500 | 4,090 | -1.1% | 0.4% | 6.7% | -7.7% | 28.1% |
| Dow Jones Indus. Avg. | 33,869 | -0.1% | -0.6% | 2.3% | -1.9% | 23.1% |
| NASDAQ | 11,718 | -2.4% | 1.2% | 12.1% | -16.7% | 24.6% |
| S&P Midcap 400 | 2,639 | -2.5% | -0.5% | 8.7% | 0.1% | 34.0% |
| Russell 2000 (Small Cap) | 1,919 | -3.3% | -0.6% | 9.0% | -5.1% | 19.5% |
| MSCI EAFE (Int'l Dev Mkt Eq) | 2,085 | -1.6% | -0.7% | 7.4% | -6.2% | 12.5% |
| MSCI EM (Emerging Mkt Eq) | 1,014 | -2.4% | -1.7% | 6.1% | -16.2% | 1.3% |
| MSCI World | 2,784 | -1.3% | 0.0% | 7.1% | -8.3% | 20.8% |
| S&P Global 1200 | 3,084 | -1.1% | -0.1% | 7.1% | -7.4% | 22.5% |

| Fixed Income | Yield | Index Total Returns (%) | | | | |
|----------------------------|-------|-------------------------|-------|------|--------|---------|
| | | 1 Week | MTD | YTD | 1 Year | 3y Cum. |
| 10y U.S. Treasuries | 3.73% | -1.7% | -2.1% | 1.0% | -11.3% | -13.0% |
| U.S. Bonds (Aggregate) | 4.56% | -1.4% | -1.5% | 1.5% | -7.9% | -8.3% |
| Global Bonds | 3.61% | -1.6% | -1.4% | 1.8% | -12.1% | -11.8% |
| U.S. Munis | 3.22% | -0.6% | -0.4% | 2.4% | -3.6% | -1.6% |
| U.S. Investment Grade Corp | 5.23% | -1.8% | -1.7% | 2.2% | -8.9% | -8.8% |
| U.S. High Yield Corporates | 8.38% | -1.8% | -0.7% | 3.1% | -5.2% | 2.6% |

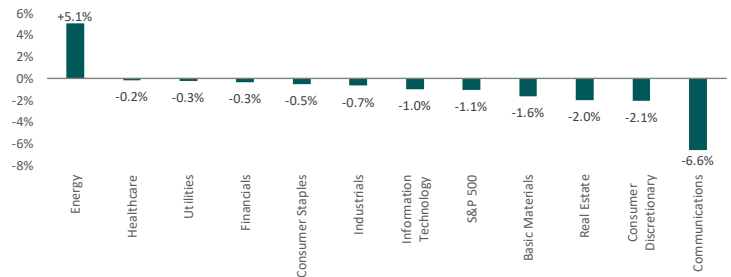
| US Interest Rates | Levels (%) | | | | | |
|----------------------------|------------|--------|---------|----------|---------|---------|
| | 2/10/23 | 2/3/23 | 1/31/23 | 12/30/22 | 2/10/22 | 2/10/20 |
| 2y Treasuries | 4.52 | 4.29 | 4.20 | 4.43 | 1.58 | 1.39 |
| 10y Treasuries | 3.73 | 3.52 | 3.51 | 3.87 | 2.03 | 1.57 |
| 30y Treasuries | 3.82 | 3.61 | 3.63 | 3.96 | 2.32 | 2.04 |
| Fed Funds (Effective Rate) | 4.58 | 4.58 | 4.33 | 4.33 | 0.08 | 1.58 |
| SOFR (USD) | 4.55 | 4.55 | 4.31 | 4.30 | 0.05 | 1.58 |
| 30y Fixed Mortgage | 6.16 | 5.99 | 6.02 | 6.41 | 3.69 | 3.45 |

| Commodity Prices | Levels | | | | | |
|------------------|---------|--------|---------|----------|---------|---------|
| | 2/10/23 | 2/3/23 | 1/31/23 | 12/30/22 | 2/10/22 | 2/10/20 |
| Oil (WTI) | 79.72 | 73.39 | 78.87 | 80.26 | 89.88 | 49.57 |
| Gasoline | 3.42 | 3.48 | 3.50 | 3.20 | 3.48 | 2.43 |
| Natural Gas | 2.51 | 2.41 | 2.68 | 4.48 | 3.96 | 1.77 |
| Gold | 1,866 | 1,865 | 1,928 | 1,824 | 1,827 | 1,572 |

| Currency Crosses | Levels | | | | | |
|------------------|---------|--------|---------|----------|---------|---------|
| | 2/10/23 | 2/3/23 | 1/31/23 | 12/30/22 | 2/10/22 | 2/10/20 |
| \$ per £ | 1.21 | 1.21 | 1.23 | 1.21 | 1.36 | 1.29 |
| \$ per € | 1.07 | 1.08 | 1.09 | 1.07 | 1.14 | 1.09 |
| ¥ per \$ | 131.4 | 131.2 | 130.1 | 131.1 | 116.0 | 109.8 |
| \$ per Bitcoin | 21,541 | 23,384 | 22,951 | 16,579 | 43,776 | 9,866 |

| Macroeconomic Data | Value | Date | Next Rel. | Data Sources: | |
|-------------------------------|-------|----------|-----------|---------------|---------|
| | | | | Bloomberg | FactSet |
| Fed Funds Target (Floor) | 4.50% | 02/10/23 | 03/22/23 | | |
| 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) | 3.4% | 01/31/23 | 03/10/23 | | |
| GDP Growth (Q/Q SAAR) | 2.9% | 12/31/22 | 01/26/23 | | |
| ISM Manufacturing PMI | 47.4 | 01/31/23 | 03/01/23 | | |
| Consumer Confidence | 107.1 | 01/31/23 | 02/28/23 | | |

Sector Total Returns for the Week Ending 02/10/23



YTD Sector Total Returns as of 02/10/23

