



Wealth Advisors,  
Investment Managers

## Market Commentary

### Weekly Recap:

It was a mixed bag for financial markets last week after fresh US inflation data for January came in somewhat higher than expected. Core CPI rose very slightly on a m/m basis, the second such sequential increase, while the m/m change in Core PPI rose for the 4th consecutive time. See the Chart of the Week for a time series.

The moderate uptick in real time inflation data coupled with the extremely strong January NFP report had market participants recalibrating their Fed expectations. After the February 1st rate hike of 25bp, futures markets suggested that only one more such hike would like occur at the March meeting, after which the Fed was expected to pause. Fast forward just two weeks, and futures now suggest that three more 25bp hikes are likely, one in each of March, May, and June. As a result of the shift in expectations for the Fed, bond investors saw rising yields and lower prices for the second week in a row, particularly towards the front end of the curve.

Equities were mixed last week. The Nasdaq outperformed, a rare occurrence with rising rates. Meanwhile, falling oil prices pulled down the energy sector, keeping the Dow flat and pushing the S&P slightly into the red. International markets were mixed as well, with weakness in Chinese stocks pulling E/M benchmarks lower.

Other economic data released last week showed stabilization in housing starts and building permits, and perhaps some cautious optimism (or at least less pessimism) on the part of homebuilders. Unemployment claims remain low, most gauges of manufacturing activity remain weak, and strong retail sales from January suggest the US consumer remains resilient despite inflation.

### 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 four 25bp hikes in 2023, with a "terminal" Fed Funds policy rate slightly above 5% for this cycle.

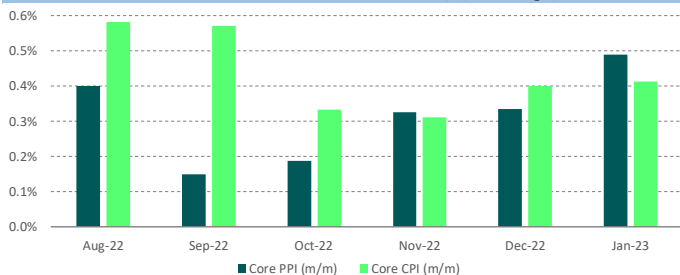
\*Inflation - After reaching 40yr highs in spring of 2022, inflation moderated in the second half of the year. Headline inflation eased over the summer on falling energy prices, and core inflation followed suit in Q4. Goods inflation has fallen due to softening demand and excess inventory, while heavily 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 02/17/23

- Initial Jobless Claims (190k 4wk m/a) - Stronger: below 200k/wk for the first time in several months
- Conference Board LEI (-5.9% y/y) - Weaker: has declined significantly since peaking in Feb 2022
- Building Permits (1,339k) - Weaker: has declined since spring 2022 on rising mortgage rates
- Corporate Bond Spreads (113%) - Stronger: IG spreads have tightened -40bp since October 2022
- Treasury Yield Curves (88.9% 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 - Core PPI and CPI (m/m change)



## Weekly Market Recap - 02/17/23

### Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
S&P 500	4,079	-0.2%	0.2%	6.5%	-5.3%	26.7%
Dow Jones Indus. Avg.	33,827	0.0%	-0.6%	2.3%	0.7%	22.4%
NASDAQ	11,787	0.6%	1.8%	12.8%	-13.3%	24.1%
S&P Midcap 400	2,666	1.1%	0.6%	9.9%	2.5%	33.1%
Russell 2000 (Small Cap)	1,946	1.5%	0.8%	10.7%	-2.6%	19.7%
MSCI EAFE (Int'l Dev Mkt Eq)	2,087	0.1%	-0.6%	7.5%	-4.4%	12.3%
MSCI EM (Emerging Mkt Eq)	999	-1.4%	-3.1%	4.6%	-16.9%	-2.0%
MSCI World	2,783	-0.1%	-0.1%	7.0%	-6.1%	19.8%
S&P Global 1200	3,079	-0.1%	-0.2%	6.9%	-5.5%	21.3%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	3.81%	-0.5%	-2.6%	0.5%	-12.4%	-13.0%
U.S. Bonds (Aggregate)	4.66%	-0.5%	-1.9%	1.1%	-8.6%	-8.7%
Global Bonds	3.70%	-1.0%	-2.4%	0.8%	-12.9%	-12.5%
U.S. Munis	3.52%	-1.4%	-1.9%	1.0%	-4.4%	-3.1%
U.S. Investment Grade Corp	5.35%	-0.7%	-2.4%	1.5%	-9.2%	-9.3%
U.S. High Yield Corporates	8.60%	-0.9%	-1.6%	2.2%	-5.2%	1.2%

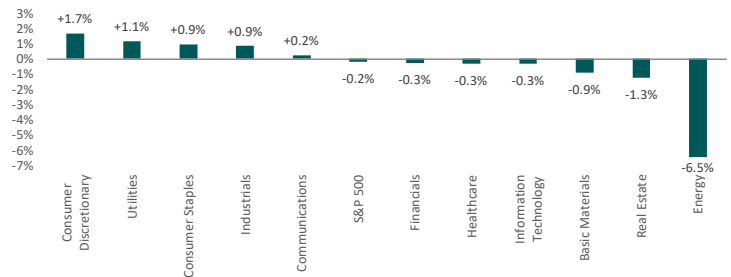
US Interest Rates	Levels (%)					
	2/17/23	2/10/23	1/31/23	12/30/22	2/17/22	2/17/20
2y Treasuries	4.62	4.52	4.20	4.43	1.47	1.43
10y Treasuries	3.81	3.73	3.51	3.87	1.96	1.58
30y Treasuries	3.87	3.82	3.63	3.96	2.29	2.04
Fed Funds (Effective Rate)	4.58	4.58	4.33	4.33	0.08	N/A N/A
SOFR (USD)	4.55	4.55	4.31	4.30	0.05	N/A N/A
30y Fixed Mortgage	6.34	6.16	6.02	6.41	3.92	3.47

Commodity Prices	Levels					
	2/17/23	2/10/23	1/31/23	12/30/22	2/17/22	2/17/20
Oil (WTI)	76.34	79.72	78.87	80.26	91.76	N/A N/A
Gasoline	3.42	3.42	3.50	3.20	3.53	2.44
Natural Gas	2.28	2.51	2.68	4.48	4.49	N/A N/A
Gold	1,842	1,866	1,928	1,824	1,898	1,581

Currency Crosses	Levels					
	2/17/23	2/10/23	1/31/23	12/30/22	2/17/22	2/17/20
\$ per £	1.20	1.21	1.23	1.21	1.36	1.30
\$ per €	1.07	1.07	1.09	1.07	1.14	1.08
¥ per \$	134.2	131.4	130.1	131.1	114.9	109.9
\$ per Bitcoin	24,487	21,541	22,951	16,579	40,700	9,647

Macroeconomic Data	Value	Date	Next Rel.	Data Sources:	
				Bloomberg	FactSet
Fed Funds Target (Floor)	4.50%	02/17/23	03/22/23		
Inflation (Core PCE Deflator)	4.4%	12/31/22	02/24/23		
Inflation (Headline CPI)	6.4%	01/31/23	03/14/23		
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 02/17/23



### YTD Sector Total Returns as of 02/17/23

