



Wealth Advisors,  
Investment Managers

# Weekly Market Recap - 02/24/23

## Market Commentary

### Weekly Recap:

The holiday-shortened week was a tough one for financial markets thanks to recent trends in inflation, which does not appear to be cooling as quickly as market participants had hoped. The January print of US PCE (personal consumption expenditures, the Fed's preferred inflation gauge), was higher than expected and showed sequential increases across the board:

- \* Headline PCE Deflator: +0.6% m/m, +5.4% y/y
- \* Core PCE Deflator: +0.4% m/m, +4.7% y/y

In response, rates continued to rise across the curve, particularly in the front end as the yield curve inversion deepened. Futures markets are now pricing in 25bp rate hikes at each of the next three FOMC meetings (March, May, and June), with very low odds of any rate cuts happening before the end of the year. Rising rates in February have erased most of the gains enjoyed by bond investors during January, leaving fixed income close to flat on the year.

Equities were not spared the selling pressure either. The S&P 500 was down for the 3rd week in a row, while the more rate-sensitive Nasdaq underperformed on weakness in longer-duration technology stocks.

Other economic data released last week showed a resilient US economy. Initial jobless claims remain below 200k/week, S&P Global's Composite PMI rebounded into expansion territory (as did several regional Fed surveys), new home sales rose for the 2nd straight month, and the University of Michigan's consumer sentiment index rose slightly in the final February print, with a notable gain in the future expectations component.

### 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.

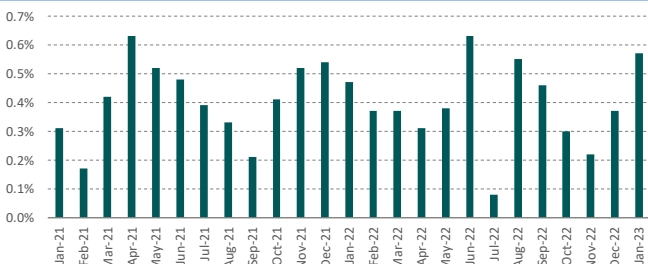
\*Inflation - After reaching 40yr highs in spring of 2022, inflation moderated in the second half of the year. Headline inflation eased over the summer on falling energy prices, and core inflation followed suit in Q4. Goods inflation has fallen due to softening demand and excess inventory, while heavily 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 02/24/23

- Initial Jobless Claims (191k 4wk m/a) - Stronger: consistently below 200k in recent weeks
- Conference Board LEI (-5.9% y/y) - Weaker: has declined significantly since peaking in Feb 2022
- Building Permits (1,339k) - Steady: housing activity appears to have stabilized in early 2023
- Corporate Bond Spreads (1.15%) - 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 PCE Deflator (m/m change)



## Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
S&P 500	3,970	-2.7%	-2.5%	3.7%	-5.9%	29.2%
Dow Jones Indus. Avg.	32,817	-3.0%	-3.5%	-0.7%	0.9%	24.8%
NASDAQ	11,395	-3.3%	-1.5%	9.0%	-14.7%	26.5%
S&P Midcap 400	2,601	-2.4%	-1.8%	7.2%	2.2%	34.6%
Russell 2000 (Small Cap)	1,890	-2.9%	-2.1%	7.5%	-3.9%	20.6%
MSCI EAFE (Int'l Dev Mkt Eq)	2,035	-2.4%	-3.0%	4.9%	-0.3%	13.6%
MSCI EM (Emerging Mkt Eq)	972	-2.7%	-5.7%	1.7%	-13.0%	0.0%
MSCI World	2,707	-2.6%	-2.7%	4.2%	-5.3%	21.6%
S&P Global 1200	2,992	-2.8%	-3.0%	4.0%	-4.8%	23.2%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	3.94%	-1.0%	-3.5%	-0.5%	-13.4%	-15.6%
U.S. Bonds (Aggregate)	4.83%	-0.9%	-2.8%	0.2%	-9.1%	-10.3%
Global Bonds	3.83%	-1.2%	-3.5%	-0.4%	-13.1%	-13.9%
U.S. Munis	3.62%	-0.4%	-2.3%	0.5%	-5.2%	-4.4%
U.S. Investment Grade Corp	5.53%	-1.0%	-3.4%	0.5%	-9.5%	-11.0%
U.S. High Yield Corporates	8.71%	-0.2%	-1.7%	2.0%	-5.0%	1.6%

US Interest Rates	Levels (%)					
	2/24/23	2/17/23	1/31/23	12/30/22	2/24/22	2/24/20
2y Treasuries	4.81	4.62	4.20	4.43	1.58	1.25
10y Treasuries	3.94	3.81	3.51	3.87	1.96	1.37
30y Treasuries	3.93	3.87	3.63	3.96	2.28	1.83
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	6.66	6.34	6.02	6.41	3.89	3.49

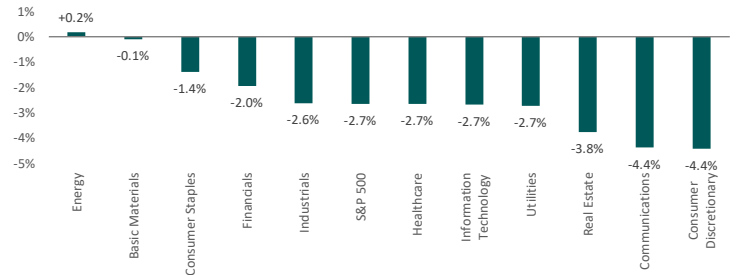
Commodity Prices	Levels					
	2/24/23	2/17/23	1/31/23	12/30/22	2/24/22	2/24/20
Oil (WTI)	76.32	76.34	78.87	80.26	92.81	51.43
Gasoline	3.37	3.42	3.50	3.20	3.57	2.47
Natural Gas	2.45	2.28	2.68	4.48	4.57	1.83
Gold	1,811	1,842	1,928	1,824	1,904	1,659

Currency Crosses	Levels					
	2/24/23	2/17/23	1/31/23	12/30/22	2/24/22	2/24/20
\$ per €	1.19	1.20	1.23	1.21	1.34	1.29
\$ per ¥	1.05	1.07	1.09	1.07	1.12	1.09
¥ per \$	136.5	134.2	130.1	131.1	115.5	110.7
\$ per Bitcoin	23,102	24,487	22,951	16,579	38,415	9,607

Macroeconomic Data	Value	Date	Next Rel.	Data Sources:	
Fed Funds Target (Floor)	4.50%	02/24/23	03/22/23		
Inflation (Core PCE Deflator)	4.7%	01/31/23	03/31/23		
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)	2.7%	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		

Bloomberg, FactSet

### Sector Total Returns for the Week Ending 02/24/23



### YTD Sector Total Returns as of 02/24/23

