



Wealth Advisors,
Investment Managers

Market Commentary

Weekly Recap:

Last week was calm at the start, with rates relatively stable through Wednesday's close while equities were only slightly lower. That all changed on Thursday, however, as market participants watched the rapid descent of Silicon Valley Bank into receivership. In the span of barely 24 hours, investors went from worrying about inflation and Fed policy to wondering how many small technology firms might suddenly have liquidity challenges and grappling with the possibility of a wider crisis of confidence within the banking system.

Asset price changes were consistent with a broad-based increase in risk aversion:

- * Treasuries rallied
- * Credit spreads widened
- * Commodities fell
- * Equity prices moved lower

Predictably, financials were the worst performing sector, while defensives such as staples and utilities were less impacted. Small caps underperformed, as one might expect given their greater dependency on banks for liquidity and financing.

This episode has radically altered investor expectations regarding the forward path of Fed policy, under the assumption that the Fed is less likely to further tighten policy if the banking system appears wobbly. One week ago, futures markets were pricing in 3 or 4 additional rate hikes in 2023, and no rate cuts prior to year-end. Futures now suggest that the Fed will hike 25bp in March and then stop, and that as many as three rate cuts could occur by December. As a result, the implied year-end Fed Funds rate has fallen nearly 150bp, from 5.56% to 4.10%, in just three days.

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 one more 25bp hike in March, followed by a pause and then several rate cuts in the back half of the year.

*Inflation - After reaching 40yr highs in spring of 2022, inflation moderated in the second half of the year. Goods inflation has fallen due to softening demand and excess inventory, while services inflation remains elevated, in part due to shelter costs which are somewhat lagged. Real-time inflation data ticked higher sequentially in February.

Albion's Dashboard of Key Leading Economic Indicators as of 03/10/23

- Initial Jobless Claims (197k 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 (1.26%) - Weaker: spreads have widened in recent sessions due to SVB
- Treasury Yield Curves (91.1% inv) - Weaker: most Treasury curve points are inverted
- Consumer Confidence (102.9) - Steady: rangebound (100-110) for the past 7 months
- 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: Futures-Implied Fed Funds Rate at Year-End 2023



Weekly Market Recap - 03/10/23

Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
S&P 500	3,862	-4.5%	-2.7%	0.9%	-7.8%	40.7%
Dow Jones Indus. Avg.	31,910	-4.3%	-2.1%	-3.2%	-1.7%	35.8%
NASDAQ	11,139	-4.7%	-2.7%	6.6%	-14.4%	36.7%
S&P Midcap 400	2,453	-7.4%	-5.6%	1.2%	-3.9%	51.3%
Russell 2000 (Small Cap)	1,773	-8.0%	-6.5%	0.9%	-10.6%	36.3%
MSCI EAFE (Int'l Dev Mkt Eq)	2,052	-0.7%	0.1%	6.0%	3.3%	32.1%
MSCI EM (Emerging Mkt Eq)	955	-3.3%	-0.9%	0.0%	-10.5%	7.5%
MSCI World	2,657	-3.6%	-2.0%	2.4%	-5.9%	35.6%
S&P Global 1200	2,935	-3.8%	-1.9%	2.1%	-5.2%	36.8%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	3.70%	2.3%	1.9%	1.8%	-11.1%	-18.4%
U.S. Bonds (Aggregate)	4.67%	1.2%	1.0%	1.5%	-7.4%	-10.6%
Global Bonds	3.73%	1.3%	1.1%	1.0%	-11.0%	-15.3%
U.S. Munis	3.51%	0.9%	0.8%	1.3%	-3.2%	-3.8%
U.S. Investment Grade Corp	5.41%	0.8%	1.0%	1.7%	-7.0%	-9.1%
U.S. High Yield Corporates	8.83%	-0.9%	-0.6%	1.9%	-4.5%	7.3%

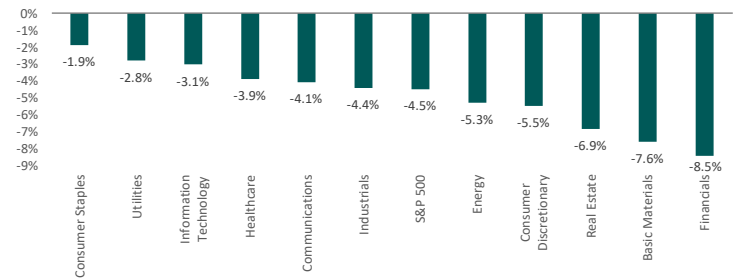
US Interest Rates	Levels (%)					
	3/10/23	3/3/23	2/28/23	12/30/22	3/10/22	3/10/20
2y Treasuries	4.59	4.86	4.82	4.43	1.70	0.53
10y Treasuries	3.70	3.95	3.92	3.87	1.99	0.80
30y Treasuries	3.71	3.88	3.92	3.96	2.37	1.28
Fed Funds (Effective Rate)	4.57	4.57	4.57	4.33	0.08	1.09
SOFR (USD)	4.55	4.55	4.55	4.30	0.05	1.11
30y Fixed Mortgage	6.71	6.74	6.66	6.41	3.85	3.29

Commodity Prices	Levels					
	3/10/23	3/3/23	2/28/23	12/30/22	3/10/22	3/10/20
Oil (WTI)	76.68	79.68	77.05	80.26	106.02	34.36
Gasoline	3.47	3.40	3.36	3.20	4.33	2.35
Natural Gas	2.43	3.01	2.75	4.48	4.63	1.94
Gold	1,868	1,856	1,827	1,824	1,997	1,649

Currency Crosses	Levels					
	3/10/23	3/3/23	2/28/23	12/30/22	3/10/22	3/10/20
\$ per €	1.20	1.20	1.20	1.21	1.31	1.29
\$ per ¥	1.06	1.06	1.06	1.07	1.10	1.13
¥ per \$	135.0	135.9	136.2	131.1	116.1	105.6
\$ per Bitcoin	20,102	22,243	23,147	16,579	39,330	7,999

Macroeconomic Data	Value	Date	Next Rel.	Data Sources:
Fed Funds Target (Floor)	4.50%	03/10/23	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)	3.6%	02/28/23	04/07/23	
GDP Growth (Q/Q SAAR)	2.7%	12/31/22	04/27/23	
ISM Manufacturing PMI	47.7	02/28/23	04/03/23	
Consumer Confidence	102.9	02/28/23	03/28/23	

Sector Total Returns for the Week Ending 03/10/23



YTD Sector Total Returns as of 03/10/23

