



Wealth Advisors,
Investment Managers

Weekly Market Recap - 03/17/23

Market Commentary

Weekly Recap:

Market remained on edge last week as investors digested the unfolding drama in the financial sector. The week began with several announcements aimed at staving off contagion from Silicon Valley Bank and Signature Bank. By Tuesday, however, it was clear that Credit Suisse, the giant Swiss bank with more than \$500 billion in assets, was also facing a crisis of confidence amongst clients and counterparties and would not survive intact. Swiss officials raced to find a solution, but the sheer size of the institution meant there was really only one viable option - a shotgun marriage with longtime rival UBS, which was finally arranged on Sunday the 19th.

Domestic equity markets were mixed, with noncyclical large caps posting modest gains. Most cyclicals (financials, energy, materials, and industrials) and small caps were lower, as investors priced in a higher chance of a US recession.

Bond markets rallied for the second week in a row, as yields fell on safe haven demand. High yield corporates were the exception thanks to rapidly widening credit spreads, consistent with an increase in perceived recession risk.

Economic data was mixed last week. Core CPI (+0.5% m/m) came in slightly higher than expected, but Core PPI was flat m/m in a sign that upstream price pressures continue to moderate. Housing showed renewed signs of activity, with residential building permits (1.52mn) and housing starts (1.45mn) both rising sharply m/m. Initial jobless claims fell back below 200k in a clear sign of labor market strength. However, the Conference Board's Leading Economic Index (LEI) fell sequentially for the 11th month in a row, and several gauges of manufacturing activity (Philly Fed, New York Fed, and Empire Manufacturing) remain in contraction territory.

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 17x 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. The equity risk premium has expanded slightly over the past two weeks on concerns regarding the financial system.

*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.

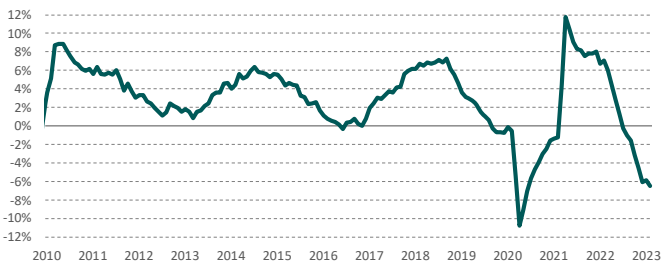
*Inflation - After reaching 40yr highs in spring of 2022, inflation moderated in the second half of the year. Goods inflation has fallen due to softening demand and excess inventory, while services inflation remains elevated, in part due to shelter costs which are somewhat lagged. Real-time inflation data ticked higher sequentially in February of 2023.

Albion's Dashboard of Key Leading Economic Indicators as of 03/17/23

- Initial Jobless Claims (197k 4wk m/a) - Stronger: consistently below 200k in recent weeks
- Conference Board LEI (-6.5% y/y) - Weaker: has declined significantly since peaking in Feb 2022
- Building Permits (1,524k) - Stronger: housing activity rebounded sharply in February 2023
- Corporate Bond Spreads (1.46%) - Weaker: spreads have widened in recent sessions due to SVB
- Treasury Yield Curves (82.2% 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: Conference Board Leading Economic Index (y/y change)



Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
S&P 500	3,917	1.5%	-1.2%	2.4%	-9.7%	62.5%
Dow Jones Indus. Avg.	31,862	-0.1%	-2.2%	-3.4%	-5.6%	59.6%
NASDAQ	11,631	4.4%	1.6%	11.4%	-13.8%	62.4%
S&P Midcap 400	2,374	-3.1%	-8.6%	-1.9%	-10.0%	77.0%
Russell 2000 (Small Cap)	1,726	-2.6%	-8.9%	-1.7%	-15.2%	61.9%
MSCI EAFE (Int'l Dev Mkt Eq)	1,987	-3.1%	-3.0%	2.7%	-4.5%	50.8%
MSCI EM (Emerging Mkt Eq)	952	-0.3%	-1.1%	-0.2%	-12.3%	25.1%
MSCI World	2,656	0.0%	-2.0%	2.4%	-9.4%	56.9%
S&P Global 1200	2,939	0.2%	-1.7%	2.3%	-8.6%	57.7%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	3.43%	2.2%	4.2%	4.0%	-7.6%	-14.7%
U.S. Bonds (Aggregate)	4.36%	1.4%	2.5%	2.9%	-5.3%	-6.9%
Global Bonds	3.48%	1.6%	2.8%	2.6%	-9.0%	-9.7%
U.S. Munis	3.35%	0.8%	1.5%	2.1%	-1.7%	1.6%
U.S. Investment Grade Corp	5.30%	0.8%	1.8%	2.5%	-6.4%	-1.8%
U.S. High Yield Corporates	8.98%	-0.4%	-1.0%	1.4%	-5.0%	16.4%

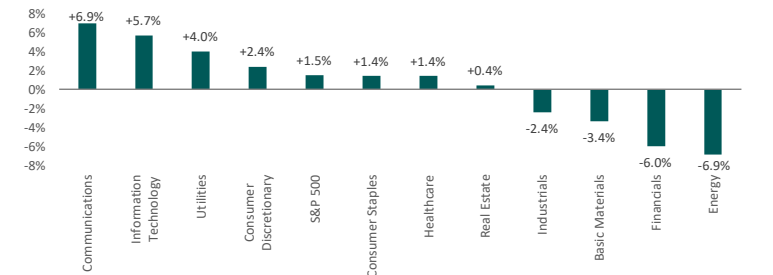
US Interest Rates	Levels (%)					
	3/17/23	3/10/23	2/28/23	12/30/22	3/17/22	3/17/20
2y Treasuries	3.84	4.59	4.82	4.43	1.91	0.49
10y Treasuries	3.43	3.70	3.92	3.87	2.17	1.08
30y Treasuries	3.62	3.71	3.92	3.96	2.47	1.68
Fed Funds (Effective Rate)	4.58	4.57	4.57	4.33	0.33	0.25
SOFR (USD)	4.55	4.55	4.55	4.30	0.30	0.54
30y Fixed Mortgage	6.51	6.71	6.66	6.41	4.16	3.36

Commodity Prices	Levels					
	3/17/23	3/10/23	2/28/23	12/30/22	3/17/22	3/17/20
Oil (WTI)	66.74	76.68	77.05	80.26	102.98	26.95
Gasoline	3.46	3.47	3.36	3.20	4.27	2.22
Natural Gas	2.34	2.43	2.75	4.48	4.99	1.73
Gold	1,989	1,868	1,827	1,824	1,943	1,528

Currency Crosses	Levels					
	3/17/23	3/10/23	2/28/23	12/30/22	3/17/22	3/17/20
\$ per €	1.22	1.20	1.20	1.21	1.31	1.21
\$ per ¥	1.07	1.06	1.06	1.07	1.11	1.10
¥ per \$	131.9	135.0	136.2	131.1	118.6	107.7
\$ per Bitcoin	26,823	20,102	23,147	16,579	40,725	5,470

Macroeconomic Data	Value	Date	Next Rel.	Data Sources:	
				Bloomberg	FactSet
Fed Funds Target (Floor)	4.50%	03/17/23	03/22/23		
Inflation (Core PCE Deflator)	4.7%	01/31/23	03/31/23		
Inflation (Headline CPI)	6.0%	02/28/23	04/12/23		
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 03/17/23



YTD Sector Total Returns as of 03/17/23

