ALBION FINANCIAL GROUP | Wealth Advisors, Investment Managers

Weekly Market Recap - 04/14/23

Market Commentary

Weekly Recap:

It was a strong week for equities after inflation data for March came in slightly below expectations, although rates markets did not share in the enthusiasm after fresh survey data revealed that consumers' near-term inflation *expectations* are rising.

Fresh inflation data was abundant last week. First, headline CPI was +0.1% m/m in March and fell to +5.0% y/y, while core CPI was +0.4% m/m and increased slightly to +5.6% y/y. Meanwhile, headline PPI was -0.5% m/m and fell to +2.7% y/y, the first time aggregate input price inflation has been below 3% since early 2021. Finally, import (-0.6% m/m) and export (-0.3% m/m) prices both fell sequentially.

Despite these clear disinflationary (or in some cases outright deflationary) trends, the University of Michigan's monthly consumer sentiment survey showed a sharp uptick in 1-year forward inflation expectations, jumping from a final print of +3.6% in March to a preliminary April reading of +4.6%.

Knowing that the Fed has heightened sensitivity to inflation expectations, bond investors responded to the U of M survey by pushing yields higher across the curve on Friday, resulting in price declines for most high quality fixed income.

Equities also gave back some of their WTD gains on Friday after the U of M survey release, but key US benchmarks still managed to finish in the green for the week. Somewhat surprisingly, cyclicals were the biggest winners, despite the mid-week release of FOMC minutes containing a staff economic outlook that included a mild recession later this year.

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.

*Interest Rates - Rates rose in 2022 in response to a sharp pivot in monetary policy, but have mostly fallen (except for the very front end) so far in 2023. Futures markets are currently pricing in one additional 25bp rate hike in May, followed by a pause and then multiple 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.

Market Data

Equity Indices	Close	1 Week	MTD	YTD	1 Year	3y Cum.
		Index Total Returns (%)				
S&P 500	4,138	0.8%	0.8%	8.3%	-4.2%	52.5%
Dow Jones Indus. Avg.	33,886	1.2%	1.9%	2.8%	0.5%	50.4%
NASDAQ	12,123	0.3%	-0.8%	16.1%	-8.4%	45.7%
S&P Midcap 400	2,447	1.8%	-0.9%	2.9%	-3.6%	65.8%
Russell 2000 (Small Cap)	1,754	1.5%	-1.1%	1.6%	-9.8%	49.4%
MSCI EAFE (Int'l Dev Mkt Eq)	2,146	2.2%	2.7%	11.6%	4.7%	43.7%
MSCI EM (Emerging Mkt Eq)	1,000	1.4%	1.1%	5.2%	-7.4%	21.3%
MSCI World	2,826	1.3%	1.3%	9.1%	-2.9%	47.4%
S&P Global 1200	3,127	1.3%	1.4%	9.2%	-2.0%	48.9%

Fixed Income	Yield	1 Week	MTD	YTD	1 Year	3y Cum.
		Index Total Returns (%)				
10y U.S. Treasuries	3.51%	-0.9%	-0.2%	3.6%	-3.0%	-17.0%
U.S. Bonds (Aggregate)	4.41%	-0.5%	0.0%	3.0%	-2.1%	-9.1%
Global Bonds	3.58%	-0.5%	0.2%	3.2%	-4.8%	-10.6%
U.S. Munis	3.09%	0.1%	1.0%	3.8%	2.7%	1.5%
U.S. Investment Grade Corp	5.15%	-0.3%	0.1%	3.6%	-1.8%	-5.7%
U.S. High Yield Corporates	8.40%	0.8%	0.8%	4.4%	-0.7%	13.3%

US Interest Rates	4/14/23	4/7/23	3/31/23	12/30/22	4/14/22	4/14/20
	Levels (%)					
2y Treasuries	4.10	3.98	4.03	4.43	2.45	0.22
10y Treasuries	3.51	3.39	3.47	3.87	2.83	0.75
30y Treasuries	3.73	3.61	3.65	3.96	2.91	1.40
Fed Funds (Effective Rate)	4.83	4.83	4.83	4.33	0.33	0.05
SOFR (USD)	4.80	4.81	4.87	4.30	0.29	0.06
30y Fixed Mortgage	6.34	6.27	6.24	6.41	5.00	3.33

Commodity Prices	4/14/23	4/7/23	3/31/23	12/30/22	4/14/22	4/14/20
	Levels					
Oil (WTI)	82.52	80.70	75.67	80.26	106.95	20.11
Gasoline	3.67	3.60	3.50	3.20	4.07	1.84
Natural Gas	2.11	2.01	2.22	2.54	7.30	1.65
Gold	2,004	2,008	1,969	1,824	1,974	1,727

Currency Crosses	4/14/23	4/7/23	3/31/23	12/30/22	4/14/22	4/14/20
	Levels					
$ per £	1.24	1.24	1.23	1.21	1.31	1.26
$ per €	1.10	1.09	1.08	1.07	1.08	1.10
¥ per $	133.8	132.2	132.9	131.1	125.9	107.2
$ per Bitcoin	30,470	27,890	28,395	16,579	39,916	6,873

Macroeconomic Data	Value	Date	Next Rel.
Fed Funds Target (Floor)	4.75%	04/14/23	05/03/23
Inflation (Core PCE Deflator)	4.6%	02/28/23	04/28/23
Inflation (Headline CPI)	5.0%	03/31/23	05/10/23
Unemployment (U-3)	3.5%	03/31/23	05/05/23
GDP Growth (Q/Q SAAR)	2.6%	12/31/22	04/27/23
ISM Manufacturing PMI	46.3	03/31/23	05/01/23
Consumer Confidence	104.2	03/31/23	04/25/23

Data Sources: Bloomberg, FactSet

Albion's Dashboard of Key Leading Economic Indicators as of 04/14/23

- ● Initial Jobless Claims (240k 4wk m/a) - Steady: revised higher due to pandemic seasonal adjustments
- ● Conference Board LEI (-6.5% y/y) - Weaker: has declined significantly since peaking in Feb 2022
- ● Building Permits (1,550k) - Stronger: housing activity rebounded sharply in February 2023
- ● Corporate Bond Spreads (1.24%) - Steady: stable at slightly wider levels following March bank failures
- ● Treasury Yield Curves (84.4% inv) - Steady: most Treasury curve points are inverted
- ● Consumer Confidence (104.2) - 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

Sector Total Returns for the Week Ending 04/14/23

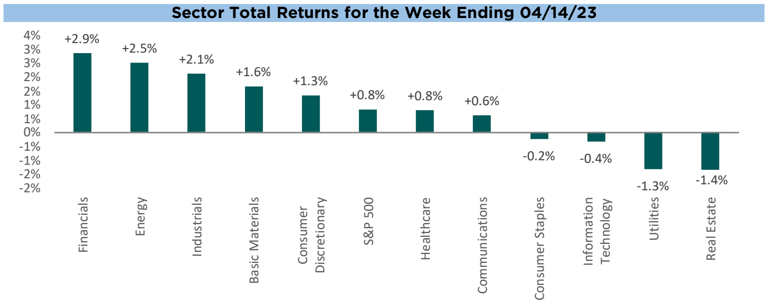
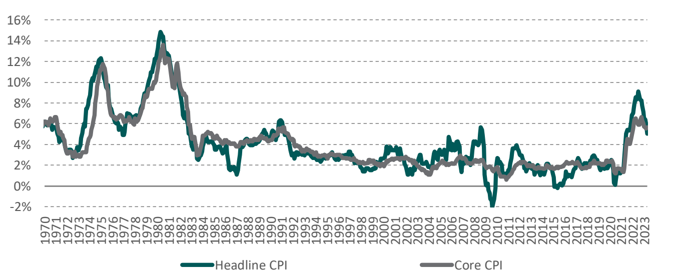


Chart of the Week: Headline and Core CPI (y/y change)



YTD Sector Total Returns as of 04/14/23