

**Market Commentary**
**Weekly Recap:**

Stocks were mixed and bonds were lower last week, as somewhat hawkish comments from regional Fed presidents (and FOMC members) Raphael Bostic and James Bullard outweighed a clear weakening in incoming economic data.

Starting with the economy, most forward-looking metrics deteriorated last week. After a sharp rebound in activity in February, housing starts and new residential building permits fell sequentially in March, calling into question whether the nascent housing recovery is sustainable. Initial jobless claims continued to drift higher, extending the trend that began in March. And finally, the Conference Board's Leading Economic Index (LEI) fell sequentially for the 12th month in a row, to a level that historically has been consistent with the onset of recession within a few months.

However, unlike earlier periods this year when a softening economy was met with optimism that the Fed may soon pivot to rate cuts, the comments from Bostic and Bullard served as a reminder that the Fed is firmly committed to the inflation fight. In response, Fed Fund Futures lowered the odds of any rate cuts happening in the back half of the year and yields rose across the Treasury curve, pushing bond prices lower.

The impact on equity prices was mixed as there was a discernable rotation across styles and sectors. Longer-dated growth stocks underperformed, causing the Nasdaq to lag the Dow and S&P. Defensives (staples, real estate, and utilities) held up better, to the benefit of small and midcap benchmarks with greater exposure to those sectors.

**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.

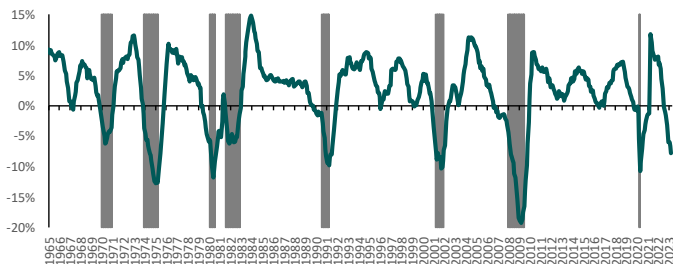
**\*Interest Rates** - Rates rose in 2022 in response to a sharp pivot in monetary policy, but have mostly fallen (except for the very front end) so far in 2023. Futures markets are currently pricing in one additional 25bp rate hike in May, followed by a pause with the possibility of rate cuts in the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

**Albion's Dashboard of Key Leading Economic Indicators as of 04/21/23**

- Initial Jobless Claims (240k 4wk m/a) - Weaker: claims began moving higher in March
- Conference Board LEI (-7.8% y/y) - Weaker: has declined significantly since peaking in Feb 2022
- Building Permits (1,413k) - Mixed: sharp rebound in February followed by March dip
- 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 8 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 LEI (y/y change)**

**Weekly Market Recap - 04/21/23**
**Market Data**

Equity Indices	Close	1 Week	MTD	YTD	1 Year	3y Cum.
S&P 500	4,134	-0.1%	0.7%	8.2%	-4.3%	58.5%
Dow Jones Indus. Avg.	33,809	-0.2%	1.7%	2.6%	-0.7%	56.2%
NASDAQ	12,072	-0.4%	-1.2%	15.6%	-7.5%	49.6%
S&P Midcap 400	2,447	0.4%	-0.5%	3.3%	-4.2%	75.3%
Russell 2000 (Small Cap)	1,754	0.6%	-0.6%	2.2%	-8.7%	56.9%
MSCI EAFE (Int'l Dev Mkt Eq)	2,146	0.1%	2.8%	11.6%	4.2%	48.9%
MSCI EM (Emerging Mkt Eq)	981	-1.9%	-0.8%	3.1%	-6.7%	21.3%
MSCI World	2,823	-0.1%	1.2%	9.0%	-3.0%	53.0%
S&P Global 1200	3,123	-0.1%	1.2%	9.0%	-2.0%	54.5%

Fixed Income	Yield	1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	3.57%	-0.4%	-0.6%	3.2%	-2.6%	-18.7%
U.S. Bonds (Aggregate)	4.47%	-0.2%	-0.2%	2.7%	-1.5%	-9.9%
Global Bonds	3.62%	-0.5%	-0.3%	2.7%	-4.5%	-10.9%
U.S. Munis	3.37%	-1.4%	-0.3%	2.4%	2.4%	0.5%
U.S. Investment Grade Corp	5.20%	-0.2%	-0.1%	3.4%	-1.0%	-6.4%
U.S. High Yield Corporates	8.55%	-0.3%	0.5%	4.1%	-0.6%	14.9%

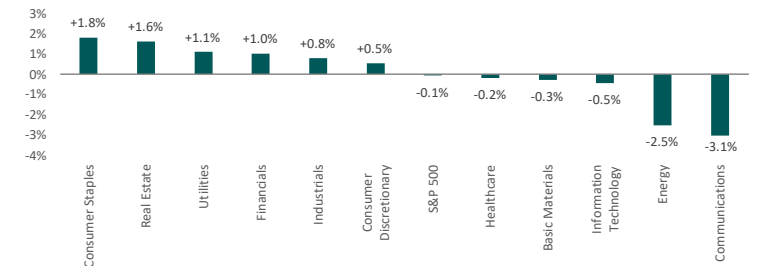
US Interest Rates	4/21/23	4/14/23	3/31/23	12/30/22	4/21/22	4/21/20
2y Treasuries	4.18	4.10	4.03	4.43	2.68	0.20
10y Treasuries	3.57	3.51	3.47	3.87	2.91	0.57
30y Treasuries	3.78	3.73	3.65	3.96	2.93	1.16
Fed Funds (Effective Rate)	4.83	4.83	4.83	4.33	0.33	0.05
SOFR (USD)	4.80	4.80	4.87	4.30	0.26	0.01
30y Fixed Mortgage	6.39	6.34	6.24	6.41	5.11	3.31

Commodity Prices	4/21/23	4/14/23	3/31/23	12/30/22	4/21/22	4/21/20
Oil (WTI)	77.87	82.52	75.67	80.26	103.79	10.01
Gasoline	3.67	3.67	3.50	3.20	4.12	1.80
Natural Gas	2.23	2.11	2.22	4.48	6.96	1.82
Gold	1,983	2,004	1,969	1,824	1,952	1,686

Currency Crosses	4/21/23	4/14/23	3/31/23	12/30/22	4/21/22	4/21/20
\$ per E	1.24	1.24	1.23	1.21	1.30	1.23
\$ per €	1.10	1.10	1.08	1.07	1.08	1.09
¥ per \$	134.2	133.8	132.9	131.1	128.4	107.8
¥ per Bitcoin	27,272	30,470	28,395	16,579	40,615	6,895

Macroeconomic Data	Value	Date	Next Rel.
Fed Funds Target (Floor)	4.75%	04/21/23	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

**Sector Total Returns for the Week Ending 04/21/23**

**YTD Sector Total Returns as of 04/21/23**
