

Market Commentary
April 2023 Recap:

Inflation: Data released in April showed that disinflation took hold again in March after a more muddled real time picture earlier in the year. Core CPI decelerated to +0.4% m/m and stands at +5.6% y/y, while the Core PCE Deflator (the Fed's preferred inflation gauge) was unchanged at +0.3% m/m and 4.6% y/y. Further upstream, real time PPI data now shows outright deflation, with core PPI at -0.1% m/m and headline at -0.5% m/m. Import and export prices also fell sequentially in the most recent data.

Monetary Policy: With no FOMC meetings in April, market participants focused on public statements from committee members to gain insights into the likely forward path of monetary policy. Futures markets are now implying that a 25bp rate hike in May is virtually assured, after viewing the outcome as nearly a toss-up a month ago. All signs currently point to a pause over the summer, with opinions split as to what happens in the back half of the year. Futures markets are implying two 25bp cuts by year-end, whereas public statements from Jerome Powell and other Fed officials have pointed towards a longer period of rate stability before any cuts take place.

Economy: Annualized Q1 GDP of +1.1% shows that the US economy is decelerating. Most regional and national gauges of manufacturing activity are in contraction territory, and housing is mixed. Labor markets and the consumer remain bright spots, although the March bank failures appear to have dented consumer confidence somewhat, and initial jobless claims have risen over the past 6-8 weeks.

Bond Market: US fixed income enjoyed a solid month of April, with rates falling modestly across the Treasury curve and credit spreads inching tighter as concerns regarding the banking system eased. Mortgage rates ticked slightly higher in April but remain within the 6-6.5% range that has persisted for most of the year.

Stock Market: Equity markets were mixed in April. US large cap benchmarks posted solid gains, led by the Dow thanks in part to bounce back performance from financials and energy stocks. Mid and small caps were weaker and continue to underperform large caps on a YTD basis. International stocks were mixed as well, with developed markets extending their 2023 outperformance relative to emerging markets.


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.

April 2023 Market Recap

Market Data

Equity Indices	Close	Index Total Returns (%)				
		MTD	QTD	YTD	1 Year	3y Cum.
S&P 500	4,169	1.6%	1.6%	9.2%	-1.1%	52.8%
Dow Jones Indus. Avg.	34,098	2.6%	2.6%	3.5%	2.7%	50.4%
NASDAQ	12,227	0.1%	0.1%	17.1%	-4.1%	45.4%
S&P Midcap 400	2,490	-0.8%	-0.8%	3.0%	-1.4%	59.8%
Russell 2000 (Small Cap)	1,769	-1.8%	-1.8%	0.9%	-6.3%	41.5%
MSCI EAFE (Int'l Dev Mkt Eq)	2,144	2.9%	2.9%	11.8%	10.2%	42.8%
MSCI EM (Emerging Mkt Eq)	977	-1.1%	-1.1%	2.9%	-4.1%	17.7%
MSCI World	2,836	1.8%	1.8%	9.6%	0.8%	46.8%
S&P Global 1200	3,135	1.7%	1.7%	9.5%	1.7%	48.4%

Fixed Income	Yield	Index Total Returns (%)				
		MTD	QTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	3.42%	0.7%	0.7%	4.5%	-1.9%	-17.4%
U.S. Bonds (Aggregate)	4.35%	0.6%	0.6%	3.6%	-0.9%	-9.1%
Global Bonds	3.52%	0.4%	0.4%	3.5%	-2.3%	-10.7%
U.S. Munis	3.39%	-0.2%	-0.2%	2.5%	2.8%	1.8%
U.S. Investment Grade Corp	5.10%	0.8%	0.8%	4.3%	0.0%	-5.8%
U.S. High Yield Corporates	8.48%	1.0%	1.0%	4.6%	0.7%	15.7%

US Interest Rates	Levels (%)					
	4/28/23	3/31/23	3/31/23	12/30/22	4/28/22	4/28/20
2y Treasuries	4.01	4.03	4.03	4.43	2.62	0.21
10y Treasuries	3.42	3.47	3.47	3.87	2.82	0.61
30y Treasuries	3.67	3.65	3.65	3.96	2.89	1.20
Fed Funds (Effective Rate)	4.83	4.83	4.83	4.33	0.33	0.04
SOFI (USD)	4.81	4.87	4.87	4.30	0.28	0.01
30y Fixed Mortgage	6.34	6.24	6.24	6.41	5.10	3.33

Commodity Prices	Levels					
	4/28/23	3/31/23	3/31/23	12/30/22	4/28/22	4/28/20
Oil (WTI)	76.78	75.67	75.67	80.26	105.36	12.34
Gasoline	3.61	3.50	3.50	3.20	4.16	1.77
Natural Gas	2.41	2.22	2.22	4.48	6.89	1.79
Gold	1,990	1,969	1,969	1,824	1,894	1,708

Currency Crosses	Levels					
	4/28/23	3/31/23	3/31/23	12/30/22	4/28/22	4/28/20
\$ per £	1.26	1.23	1.23	1.21	1.25	1.24
\$ per €	1.10	1.08	1.08	1.07	1.05	1.08
¥ per \$	136.3	132.9	132.9	131.1	130.9	106.9
\$ per Bitcoin	29,355	28,395	28,395	16,579	39,889	7,737

Macroeconomic Data	Value	Date	Next Rel.	Cons Est.	Data Sources:
Fed Funds Target (Lower)	4.75%	04/28/23	05/03/23	5.00%	-
Inflation (Core PCE Deflator)	4.6%	03/31/23	05/26/23	-	-
Inflation (Headline CPI)	5.0%	03/31/23	05/10/23	5.0%	-
Unemployment (U-3)	3.5%	03/31/23	05/05/23	3.6%	-
GDP Growth (Q/Q SAAR)	1.1%	03/31/23	05/25/23	-	-
ISM Manufacturing PMI	46.3	04/28/23	05/01/23	46.8	-
Consumer Confidence	101.3	04/28/23	05/30/23	-	Bloomberg, Factset

Albion's Dashboard of Key Leading Economic Indicators as of 04/28/23

- Initial Jobless Claims (236k 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 (1,430k) - Mixed: sharp rebound in February followed by March dip
- Corporate Bond Spreads (126%) - 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 (101.3) - Weaker: expectations component near post-pandemic low
- Real Final Sales (+2.6% y/y) - Stronger: has rebounded after a weak first half of 2022

Legend: ● = All Clear; ● = Caution; ● = Strong Warning

April 2023 S&P 500 Total Return by Sector
