



Wealth Advisors,
Investment Managers

Weekly Market Recap - 05/12/23

Market Commentary

Weekly Recap:

Most stocks and bonds were modestly lower last week despite April CPI numbers coming in a tiny bit better than expected. While the m/m change in both core and headline CPI registered at +0.4%, the y/y change in headline CPI (the most commonly cited inflation figure) fell to 4.9%, ending a 23-month period where inflation was greater than 5% on a y/y basis (the last sub-5% print was in April of 2021).

Notably, the opposing trends in inflation (lower) and overnight interest rates (higher) have brought the two together, creating an environment where nominal yields on cash equivalents (money market funds, short term Treasuries, and CD's) equal or exceed inflation. Positive real yields on cash have been a rare occurrence in the period since the 2008/09 financial crisis, occurring only briefly in 2019 after the conclusion of the Fed's previous hiking cycle. See the Chart of the Week for a time series of prime money market fund (SWVXX) yield versus the y/y change in CPI.

Despite the trend lower in inflation, investors' expectations of near term rate cuts waned a bit last week, and the Treasury curve shifted higher. Meanwhile, risk assets continue to be impacted by anxiety around the debt ceiling deadline, with stocks and commodities finishing lower while credit spreads widened.

A notable exception to the general market weakness was Google, which rocketed higher by more than 11% last week after the company showcased a number of advancements in its use of generative AI at the company's annual "Google I/O" developer conference. Google's surge was enough to pull the Comms sector into positive territory on the week, and helped the Nasdaq eke out a small gain as well.

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 a Fed pause after 500bp of hikes over the past 14 months, 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.

Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
S&P 500	4,124	-0.2%	-1.0%	8.1%	6.8%	50.7%
Dow Jones Indus. Avg.	33,301	-1.0%	-2.3%	1.2%	7.2%	48.9%
NASDAQ	12,285	0.4%	0.5%	17.7%	9.0%	39.7%
S&P Midcap 400	2,447	-1.1%	-2.3%	0.7%	4.5%	58.5%
Russell 2000 (Small Cap)	1,754	-1.0%	-1.5%	-0.6%	1.6%	41.7%
MSCI EAFE (Int'l Dev Mkt Eq)	2,126	-0.6%	-0.4%	11.3%	15.2%	41.2%
MSCI EM (Emerging Mkt Eq)	973	-0.9%	-0.3%	2.5%	1.9%	16.3%
MSCI World	2,809	-0.4%	-0.8%	8.7%	8.3%	44.7%
S&P Global 1200	3,104	-0.5%	-0.8%	8.6%	8.8%	46.8%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	3.46%	-0.2%	-0.2%	4.3%	-1.9%	-17.1%
U.S. Bonds (Aggregate)	4.37%	-0.2%	-0.3%	3.3%	-0.9%	-9.0%
Global Bonds	3.50%	-0.5%	-0.3%	3.1%	-2.1%	-10.9%
U.S. Munis	3.35%	0.0%	0.4%	3.0%	4.5%	1.2%
U.S. Investment Grade Corp	5.19%	-0.2%	-0.8%	3.5%	0.1%	-5.2%
U.S. High Yield Corporates	8.61%	-0.1%	-0.4%	4.2%	3.4%	13.1%

US Interest Rates	Levels (%)					
	5/12/23	5/5/23	4/28/23	12/30/22	5/12/22	5/12/20
2y Treasuries	3.99	3.91	4.01	4.43	2.56	0.16
10y Treasuries	3.46	3.44	3.42	3.87	2.85	0.67
30y Treasuries	3.79	3.75	3.67	3.96	3.02	1.37
Fed Funds (Effective Rate)	5.08	5.08	4.83	4.33	0.83	0.05
SOFR (USD)	5.05	5.06	4.81	4.30	0.79	0.06
30y Fixed Mortgage	6.43	6.49	6.34	6.41	5.30	3.26

Commodity Prices	Levels					
	5/12/23	5/5/23	4/28/23	12/30/22	5/12/22	5/12/20
Oil (WTI)	70.04	71.34	76.78	80.26	106.13	25.78
Gasoline	3.54	3.55	3.62	3.20	4.43	1.86
Natural Gas	2.27	2.14	2.41	4.48	7.74	1.72
Gold	2,011	2,017	1,990	1,824	1,822	1,703

Currency Crosses	Levels					
	5/12/23	5/5/23	4/28/23	12/30/22	5/12/22	5/12/20
\$ per £	1.25	1.26	1.26	1.21	1.22	1.23
\$ per €	1.08	1.10	1.10	1.07	1.04	1.08
¥ per \$	135.7	134.8	136.3	131.1	128.3	107.1
\$ per Bitcoin	26,448	29,525	29,355	16,579	28,546	8,825

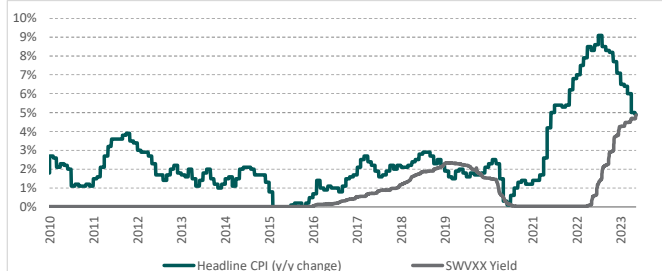
Macroeconomic Data	Value	Date	Next Rel.	Data Sources:	
				Bloomberg	FactSet
Fed Funds Target (Floor)	5.00%	05/12/23	06/14/23		
Inflation (Core PCE Deflator)	4.6%	03/31/23	05/26/23		
Inflation (Headline CPI)	4.9%	04/30/23	06/13/23		
Unemployment (U-3)	3.4%	04/30/23	06/02/23		
GDP Growth (Q/Q SAAR)	1.1%	03/31/23	05/25/23		
ISM Manufacturing PMI	47.1	04/30/23	06/01/23		
Consumer Confidence	101.3	04/30/23	05/30/23		

Albion's Dashboard of Key Leading Economic Indicators as of 05/12/23

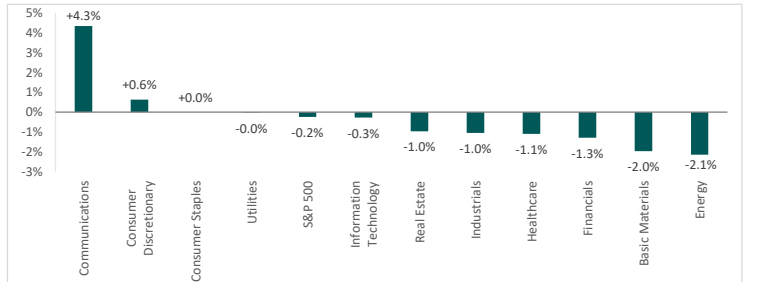
- Initial Jobless Claims (245k 4wk m/a) - Weaker: claims have risen to highest level since late 2021
- Conference Board LEI (-7.8% y/y) - Weaker: has declined significantly since peaking in Feb 2022
- Building Permits (1,430k) - Mixed: sharp rebound in February followed by March dip
- Corporate Bond Spreads (1.34%) - Weaker: spreads have moved wider as bank concerns linger
- Treasury Yield Curves (73.3% inv) - Stronger: overall yield curve inversion is beginning to inflect
- 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

Chart of the Week: Money Market Fund Yield versus y/y Headline CPI



Sector Total Returns for the Week Ending 05/12/23



YTD Sector Total Returns as of 05/12/23

