



Wealth Advisors,
Investment Managers

Weekly Market Recap - 05/26/23

Market Commentary

Weekly Recap:

Last week saw a concentrated rally in technology stocks after GPU manufacturer Nvidia provided an updated forecast for revenue growth that far exceeded analysts' expectations. In particular, any stock that investors believed to be A/- or semiconductor-related saw strong buying pressure. Meanwhile, most other companies and sectors finished the week lower despite slow-but-steady progress towards a debt ceiling deal over the course of the week.

Macro data was a bit less cooperative, however, particularly on the inflation front as the PCE Deflator came in higher than expected in freshly released April data:

- * Headline PCE m/m = +0.4% (+0.3% cons est; +0.1% prior month)
- * Headline PCE y/y = +4.4% (+4.3% cons est; +4.2% prior month)
- * Core PCE m/m = +0.4% (+0.3% cons est; +0.3% prior month)
- * Core PCE y/y = +4.7% (+4.6% cons est; +4.6% prior month)

Stubborn inflation sent rates higher on the week, particularly in the front end as investors priced in one additional 25bp rate hike over the summer. Futures markets are fairly evenly split as to whether that hike will occur at the June or July meeting, while expectations of rate cuts in the back half of the year are gradually waning.

Other macro data released last week mostly suggested a resilient economy. Personal incomes and spending rose more than expected in April, as did durable goods orders. In addition, there was a modest rebound in the University of Michigan's consumer sentiment gauge, with assessment of current conditions improving while consumers' near and longer-term inflation expectations fell.

Albion's "Four Pillars":

*Economy & Earnings - The US economy enjoyed a strong second half of 2022, but growth has slowed in early 2023 and 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 below the long-run historical average.

*Interest Rates - Rates rose dramatically in 2022 in response to a sharp pivot in monetary policy, and have remained elevated so far in 2023 as progress on inflation has been slow. Futures markets are currently pricing one additional 25bp rate hike over the summer, with the possibility of rate cuts in the back half of the year.

*Inflation - After reaching 40yr highs in spring of 2022, inflation has moderated somewhat over the past 12 months. 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 05/26/23

- Initial Jobless Claims (232k 4wk m/a) - Weaker: claims have gradually risen in the first half of 2023
- Conference Board LEI (-8.0% y/y) - Weaker: has declined significantly since peaking in Feb 2022
- Building Permits (1,417k) - Weaker: still trending lower despite short-lived rebound in Feb 2023
- Corporate Bond Spreads (1.27%) - Weaker: spreads have moved wider as bank concerns linger
- Treasury Yield Curves (84.4% 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: Core PCE Deflator (y/y change)



Market Data

Equity Indices	Close	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
S&P 500	4,205	0.3%	1.0%	10.3%	5.4%	47.4%
Dow Jones Indus. Avg.	33,093	-1.0%	-2.7%	0.7%	3.6%	40.7%
NASDAQ	12,976	2.5%	6.2%	24.4%	11.5%	42.2%
S&P Midcap 400	2,447	-0.5%	-1.8%	1.2%	0.1%	45.7%
Russell 2000 (Small Cap)	1,754	0.0%	0.4%	1.3%	-2.1%	32.1%
MSCI EAFE (Int'l Dev Mkt Eq)	2,081	-2.3%	-2.3%	9.2%	7.0%	34.0%
MSCI EM (Emerging Mkt Eq)	973	-0.4%	-0.2%	2.6%	-1.7%	14.2%
MSCI World	2,830	-0.5%	-0.1%	9.6%	4.8%	40.1%
S&P Global 1200	3,129	-0.5%	0.1%	9.7%	5.3%	42.3%

Fixed Income	Yield	Index Total Returns (%)				
		1 Week	MTD	YTD	1 Year	3y Cum.
10y U.S. Treasuries	3.80%	-0.9%	-3.0%	1.4%	-5.7%	-19.4%
U.S. Bonds (Aggregate)	4.79%	-0.7%	-2.3%	1.2%	-3.8%	-11.4%
Global Bonds	3.82%	-1.1%	-2.9%	0.5%	-5.8%	-13.7%
U.S. Munis	3.71%	-0.6%	-1.4%	1.1%	0.5%	-2.3%
U.S. Investment Grade Corp	5.55%	-0.3%	-2.6%	1.6%	-3.1%	-9.0%
U.S. High Yield Corporates	8.85%	-0.4%	-1.2%	3.3%	0.4%	9.5%

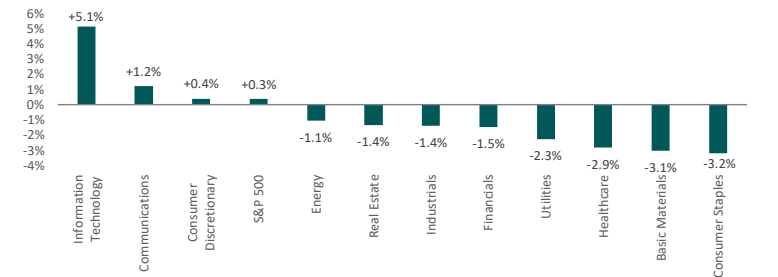
US Interest Rates	Levels (%)					
	5/26/23	5/19/23	4/28/23	12/30/22	5/26/22	5/26/20
2y Treasuries	4.56	4.27	4.01	4.43	2.48	0.17
10y Treasuries	3.80	3.67	3.42	3.87	2.75	0.70
30y Treasuries	3.96	3.93	3.67	3.96	2.98	1.44
Fed Funds (Effective Rate)	5.08	5.08	4.83	4.33	0.83	0.05
SOFR (USD)	5.06	5.05	4.81	4.30	0.78	0.06
30y Fixed Mortgage	6.76	6.51	6.34	6.41	5.10	3.24

Commodity Prices	Levels					
	5/26/23	5/19/23	4/28/23	12/30/22	5/26/22	5/26/20
Oil (WTI)	72.67	71.55	76.78	80.26	114.09	34.35
Gasoline	3.58	3.54	3.62	3.20	4.60	1.96
Natural Gas	2.18	2.59	2.41	4.48	8.91	1.79
Gold	1,946	1,978	1,990	1,824	1,851	1,711

Currency Crosses	Levels					
	5/26/23	5/19/23	4/28/23	12/30/22	5/26/22	5/26/20
\$ per £	1.23	1.24	1.26	1.21	1.26	1.23
\$ per €	1.07	1.08	1.10	1.07	1.07	1.10
¥ per \$	140.6	138.0	136.3	131.1	127.1	107.5
¥ per Bitcoin	26,759	26,840	29,355	16,579	29,438	8,859

Macroeconomic Data	Value	Date	Next Rel.	Data Sources:	
				Bloomberg	FactSet
Fed Funds Target (Floor)	5.00%	05/26/23	06/14/23		
Inflation (Core PCE Deflator)	4.7%	04/30/23	06/30/23		
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	06/29/23		
ISM Manufacturing PMI	47.1	04/30/23	06/01/23		
Consumer Confidence	101.3	04/30/23	05/30/23		

Sector Total Returns for the Week Ending 05/26/23



YTD Sector Total Returns as of 05/26/23

