



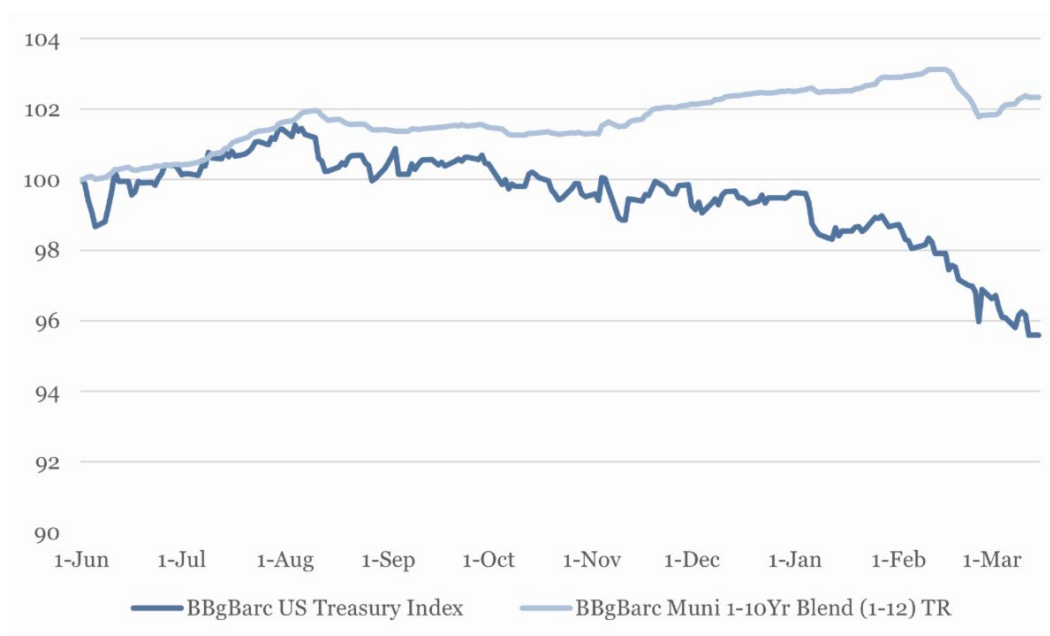
[View as Webpage](#)

Market Comment:

Fortunately for bond investors, the recent rise in interest rates has made fixed income increasingly attractive versus cash. Although neither are likely to offer positive inflation-adjusted returns over the next 2-3 years, most investors should have some portion of their portfolio dedicated to safe assets that will provide liquidity and protect their portfolio in the event of a market crisis. Cash and appropriately designed fixed income portfolios remain the most-likely candidates to serve that purpose.

Cash returns are likely to remain near-zero as the Fed has credibly signaled that there is a low probability of Fed Funds rate hikes until after 2023. Market participants believe the risk lies in an earlier, not later, start to rate hikes, but it would take job gains of five hundred thousand to one million per month, combined with sustained inflation above 2%, to pull the first hike into early 2023. A fair estimate of the annualized return in a cash portfolio over the next 2-3 years remains 0-0.25%. The current yield-to-worst in our taxable and tax-exempt fixed income portfolios are 1.5% and 0.7%, respectively, giving them a significant edge over cash from a total return standpoint.

Fig. 1: Our positioning within fixed income has held up well during the Treasury sell-off



Source: Morningstar Direct, Mill Creek. As of March 15, 2021.

Our fixed income portfolios are designed to reduce exposure to changes in interest rates. However, they will still experience some short-term price volatility due to interest rate fluctuations. For example, the Barclays US Treasury Index experienced a peak-to-trough decline of -5.6% during the recent rate move, but the benchmark index for our tax-exempt bond portfolios (BBgBarc Muni 1-10yr (1-12) TR) only declined about 1.3% (Fig. 1). Still, cash would not be subject to the same interest-rate induced fluctuations as fixed income, making it the asset of choice for investors that prioritize perfect price stability over return.

The cash versus fixed income decision is not all-or-nothing. Currently, we believe holding up to one year of portfolio spending in cash and the remainder of their safe assets in fixed income provides a prudent middle-ground for investors looking to balance return and price stability.

Updated Benchmark Performance:

Benchmark Performance by Asset Class			
	Week-to-Date	Month-to-Date	Year-to-Date
U.S. Large Cap Equities	2.89%	3.33%	5.45%
U.S. Small Cap Equities	7.36%	6.95%	19.33%
International Developed Equities	3.00%	2.50%	3.68%
Emerging Markets Equities	0.70%	0.75%	4.64%
Global Equities	2.62%	2.73%	4.63%
U.S. Bonds	-0.43%	-1.22%	-3.35%
Intermediate Municipal Bonds	0.22%	0.49%	-0.17%
High Yield Bonds	-0.06%	-0.22%	0.48%
Oil	-0.12%	7.53%	34.37%
Gold	1.24%	-0.53%	-9.45%
Key Rates	3/12/2021	12/31/2020	3/12/2020
U.S. 2 Year Treasury Note	0.14	0.13	0.50
U.S. 10 Year Treasury Note	1.64	0.93	0.88

Week in Review:

On Thursday, President Biden signed into law the \$1.9 trillion coronavirus relief package that narrowly passed the House in a vote largely along party lines. The President touted the legislation as being “about rebuilding the backbone of this country.” Meanwhile, Republicans in Congress described the aid package as bloated and said it included Democratic priorities that were unrelated to the pandemic. The bill included:

- Direct payments of up to \$1,400 to qualifying Americans, with checks to be distributed almost immediately.
- Extension of an additional \$300 per week in unemployment insurance supplement until September 6.
- Expansion of the child tax credit for one year.
- Billions of dollars towards COVID-19 vaccines, rental & utility assistance, state & local government relief, and emergency mortgage aid for homeowners and struggling restaurants.
- Expansion of the Affordable Care Act

The fast-moving disruption of the typical initial public offering process in America was highlighted last week as San Mateo, CA-based Roblox went public via direct listing, becoming the largest company to ever do so. Roblox, which provides a popular online gaming and entertainment platform, was valued at \$45 billion upon its debut in the public markets – making it the most valuable gaming company to go public to date. The company chose to list directly on the New York Stock Exchange, forging the underwriting process usually completed by investment banks.

Economic Calendar:

- 3/16: Retail Sales
- 3/16: Housing Market Index
- 3/17: FOMC Meeting concludes

This week's contributors: Michael Crook, CAIA and Dusko Jankovic, CFA, CAIA

Indices Used: U.S. Large Cap equities: Russell 1000 Index, U.S. Small Cap Equities: Russell 2000 Index, International Developed Equities: MSCI EAFE Index, Emerging Market Equities: MSCI Emerging Markets Index, U.S. Bonds: Barclays Aggregate Bond Index, U.S. 10 Year Treasury Note: Bloomberg 10 Yr. Treasury Note, Municipal Bonds: Barclays Intermediate Municipal Bond Total Return Index, High Yield Bonds: Barclays U.S. High Yield Total Return Index, Oil: Bloomberg WTI Crude Sub-Index Total Return Index, Gold: Bloomberg Gold Sub-Index Total Return Index

This publication has been prepared by Mill Creek Capital Advisors, LLC ("MCCA"). The publication is provided for information purposes only. The information contained in this publication has been obtained from sources that MCCA believes to be reliable, but MCCA does not represent or warrant that it is accurate or complete. The views in this publication are those of MCCA and are subject to change, and MCCA has no obligation to update its opinions or the information in this publication. While MCCA has obtained information believed to be reliable, MCCA, nor any of their respective officers, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this publication or its contents.

© 2021 All rights reserved. Trademarks "Mill Creek," "Mill Creek Capital" and "Mill Creek Capital Advisors" are the exclusive property of Mill Creek Capital Advisors, LLC, are registered in the U.S. Patent and Trademark Office, and may not be used without written permission.