MILL CREEK

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WEEKLY MARKET UPDATE
May 17, 2021

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Market Comment:

We need to add nearly 10 million jobs back to the economy in order to return to our pre-COVID labor force trend (Fig. 1). Job openings reached 8.1 million in March, the highest on record. Millions of job openings combined with millions of displaced workers might be enough to make one optimistic about a fast labor market recovery. That optimism would have been misplaced. Nonfarm payrolls increased by 266,000 in April. The consensus estimate was for an increase of one million. At the same time, inflation breached 4% in April due in part to supply constraints (including labor), strong demand, and base effects[1].

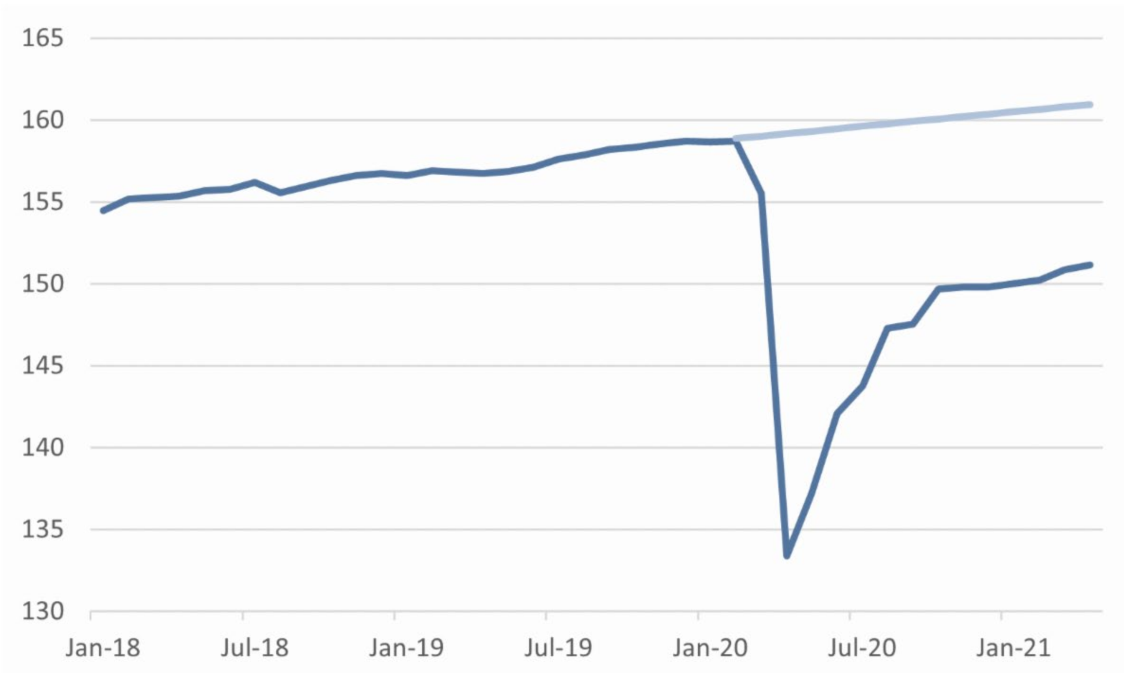
It is likely, perhaps more likely than not, that the economic recovery will progress as the Fed expects. Labor market participation will improve after stimulus payments are spent, enhanced unemployment benefits expire, and concerns about COVID and childcare dissipate. Inflation will prove to be transitory and moderate as supply chains catch up to demand. The Fed will start raising rates sometime in 2023 or 2024 and by 2030, the US will have more people in the labor force, higher interest rates, and appropriately higher inflation than pre-COVID.

On the other hand, recent data gives credence to a risk that we discussed during our last livestream. It is possible that COVID has accelerated the permanent exit of older workers — among others — from the labor market. In that scenario, the Fed's goal of reaching and exceeding the pre-COVID employment to population ratio is misguided and they will hit their inflation goals much earlier than their labor market goals. In this scenario, rates move higher more quickly, and real economic growth settles in at a lower level than the Fed's current expectations imply.

No one knows for sure which reality we live in right now, but a month of uncomfortable data isn't going to result in the Fed throwing in the towel on their employment goals. Everything is transitory until it isn't, and we won't know one way or the other until 2022 at the earliest. The Fed isn't overreacting, and we shouldn't either.

[1] Base effects: inflation was very low in April 2020 (the base for the annual calculation) so the rate of change is naturally higher in April 2021.

Fig. 1: Total Nonfarm payrolls remain about 10mn below the pre-COVID trend (million)



Sources: U.S. Bureau of Labor Statistics, All Employees, Total Nonfarm [PAYEMS], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/PAYEMS, May 13, 2021, Mill Creek.

Save the Date: Mill Creek Tax & Public Policy Panel

Save the date for our upcoming tax and public policy panel on Tuesday, June 8. We will be joined by industry experts who will weigh in on the Biden Administration's tax policies and discuss how it will impact your portfolio. Guest panelists include Libby Cantrill, Managing Director, Head of Public Policy at PIMCO and Michael James, Principal, Personal Financial Services at PwC.

Panelists:

- **Tom Chapin, CFA ,** Chief Investment Officer, Mill Creek
- **Michael Crook, CAIA,** Deputy Chief Investment Officer, Mill Creek
- **Libby Cantrill, CFA,** Managing Director, Head of Public Policy, PIMCO
- **Michael James,** Principal, Personal Financial Services, PwC

Tuesday, June 8
10 AM ET

Register here

Benchmark Performance

Benchmark Performance by Asset Class						
Benchmark Returns	One Week	Year to Date	1 Year	3 Years	5 Years	10 Years
Global Equities	-1.5%	8.8%	49.0%	12.4%	14.3%	9.6%
US Equities	-1.4%	11.1%	53.1%	17.4%	17.8%	14.3%
International Equities	-1.3%	7.9%	47.6%	6.2%	9.9%	5.9%
Emerging Market Equities	-3.0%	1.7%	48.2%	6.3%	13.0%	3.9%
US Taxable Bond Market	-0.4%	-2.7%	-0.2%	5.2%	3.1%	3.3%
US Municipal Bond Market	-0.1%	0.2%	4.0%	4.0%	2.6%	3.0%
Hedge Fund Index	-0.7%	2.2%	13.9%	3.5%	4.1%	1.6%
Diversified Commodities	-1.9%	17.9%	50.2%	1.9%	2.9%	-4.7%
Gold	0.7%	-2.9%	6.5%	12.0%	7.7%	2.2%

Key Rates (as of stated date)	5/17/21	1/1/21	5/17/20	5/17/18	5/17/16	5/17/11
US 10-Year Treasury	1.6%	0.9%	0.6%	3.1%	1.8%	3.1%
Barclays Aggregate Bond Index	1.5%	1.1%	1.4%	3.4%	2.2%	2.8%
BBarc Muni 1-10Yr Blend (1-12) Index	0.6%	0.6%	1.3%	2.4%	1.3%	2.1%

Sources: Bloomberg, Mill Creek. Returns for periods greater than one year are annualized. Benchmark rates are yield-to-worst.

This week's contributor: Michael Crook, 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

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