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WEEKLY MARKET UPDATE
June 28, 2021

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Market Comment:

It has become a common assumption in economic reporting that supply disruptions are driving goods prices higher. This notion is misguided and not supported by the data. The apparent supply shortage is — in most cases — a demand surplus.

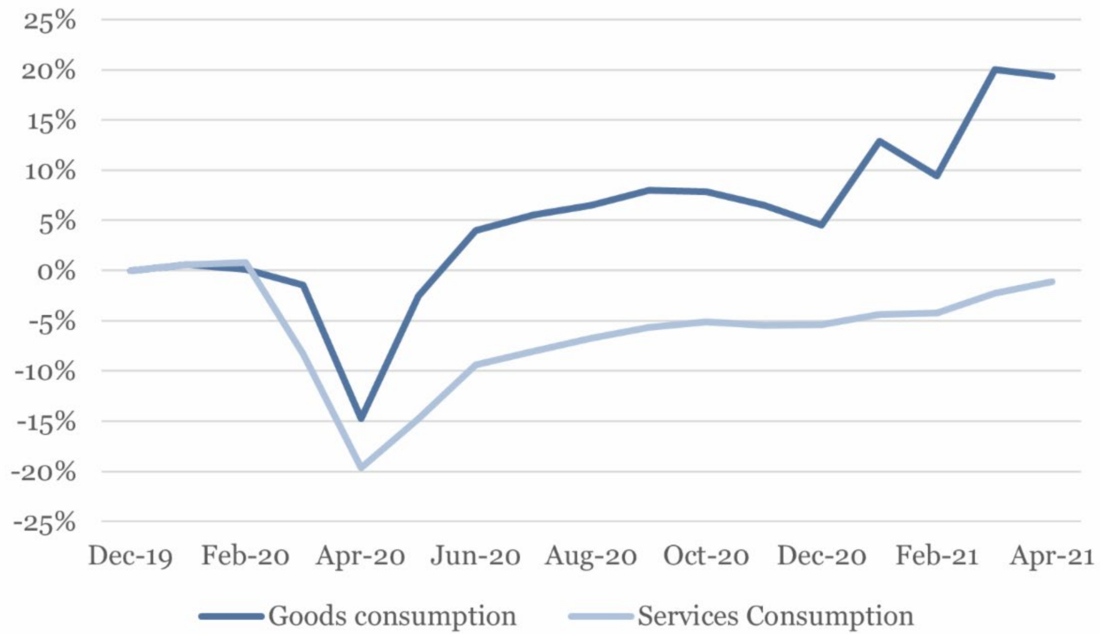
Consumption can be split into two components — goods consumption and services consumption. COVID made consuming services (e.g. a Broadway show) difficult and families responded by buying more goods (e.g. TVs and new kitchens). The result: goods consumption has increased nearly 20% since January 2020, whereas service consumption remains below pre-COVID levels (Fig. 1). Inventory acquisition by firms had fully recovered by early 2021, but companies have simply not been able to keep up with enhanced demand. Even the much-discussed semiconductor shortage is a demand-driven phenomenon.

As one might expect, we're already seeing higher prices motivate producer supply increases and reduce consumer demand. Lumber prices, for example, have declined 50% from their early-May highs. Lean hog prices hit a high in early June, but have fallen 20% over the last couple of weeks. Overall, we expect goods consumption to shift back toward services as the year progresses, but excess household savings accumulated during the pandemic could mean the demand surplus remains with us for a while.

There is one supply shock that bears watching: labor. As we've discussed, the US economy would need to add 8-9 million jobs to return to pre-COVID employment levels. There were 9.3 million job openings, an all-time record, at the end of April, but take-up of those opportunities has progressed slower than would normally be the case.

There are signs that upwards of 2 million Baby Boomers have decided to exit the labor market permanently and retire earlier than expected. Additionally, some individuals are temporarily remaining out of the labor market due to enhanced employment benefits, lingering COVID health concerns, and lack of childcare options. Should transitory unemployment become permanent, ongoing labor shortages would lead to sustained inflation and lower economic output. It is a risk we will be watching carefully.

Fig. 1: Goods and services consumption



Sources: Bloomberg, Mill Creek

Benchmark Performance:

Benchmark Performance by Asset Class						
Benchmark Returns	One Week	Year to Date	1 Year	3 Years	5 Years	10 Years
Global Equities	2.3%	12.6%	40.0%	14.7%	15.3%	10.2%
US Equities	3.0%	14.9%	44.9%	18.6%	18.5%	14.9%
International Equities	1.5%	10.6%	34.5%	9.0%	11.2%	6.4%
Emerging Market Equities	1.4%	7.7%	40.1%	11.4%	13.9%	4.6%
US Taxable Bond Market	-0.4%	-2.0%	-0.5%	5.3%	3.1%	3.3%
US Municipal Bond Market	-0.1%	0.3%	2.4%	3.9%	2.5%	2.9%
Hedge Fund Index	0.5%	3.7%	11.9%	4.3%	4.4%	1.9%
Diversified Commodities	1.7%	18.4%	45.8%	3.6%	2.4%	-4.6%
Gold	1.0%	-6.2%	1.0%	12.1%	6.2%	1.7%

Key Rates (as of stated date)	6/28/21	1/1/21	6/28/20	6/28/18	6/28/16	6/28/11
US 10-Year Treasury	1.5%	0.9%	0.6%	2.8%	1.5%	3.0%
Barclays Aggregate Bond Index	1.5%	1.1%	1.3%	3.3%	1.9%	2.8%
BBarc Muni 1-10Yr Blend (1-12) Index	0.7%	0.6%	1.0%	2.2%	1.2%	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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