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Market Comment:

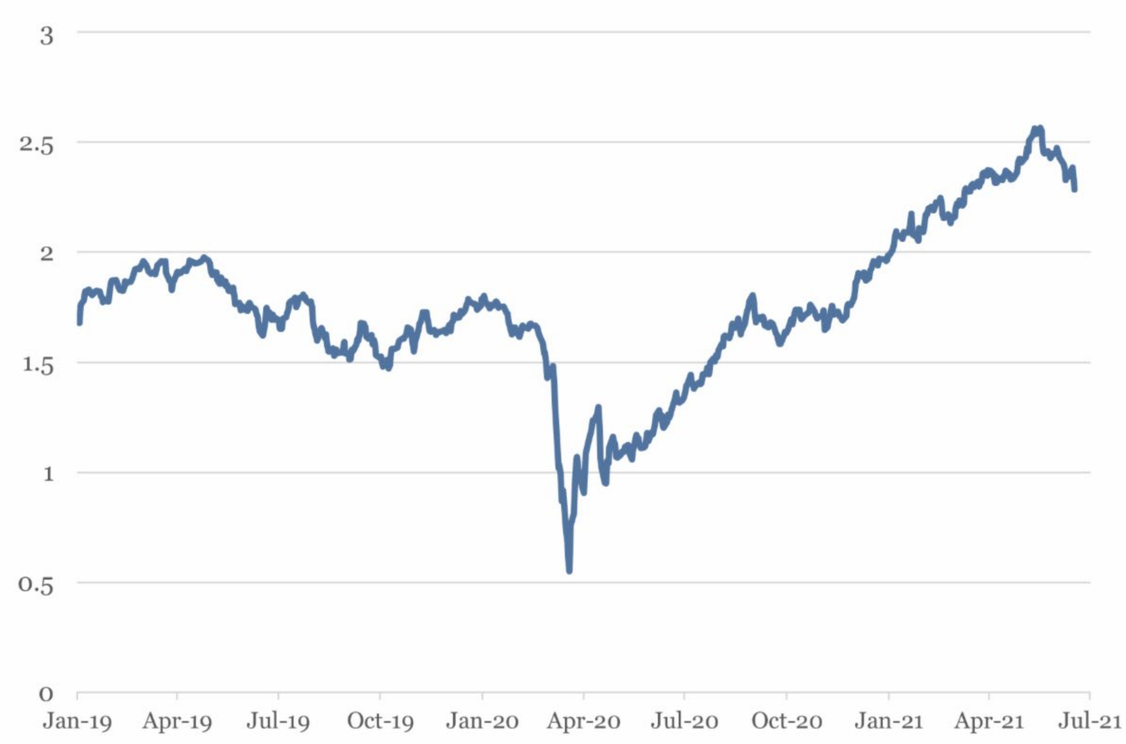
There was a bit of a surprise at the Federal Open Market Committee (FOMC) meeting last week. The FOMC now expects two rate hikes in 2023 — something bond market participants had already started to price in — whereas previously did not expect any hikes until 2024. The FOMC also revised its 2021 inflation forecast to 3.4% from 2.4% and its 2021 real GDP forecast from 6.5% to 7%. The hawkish tone of these changes were accompanied by dovish comments from Chairman Powell like "Forecasters have a lot to be humble about," "The dots are not a great forecaster of future rate moves… [and should be] taken with a big grain of salt," "and "no one knows with any certainty where the economy will be a couple of years from now."

Following the FOMC announcement, the market priced in lower future inflation (Fig. 1) and higher real yields. Gold declined, Treasury yields increased, and the dollar strengthened. Equities sold off slightly but recovered quickly.

What now? Inflation is running hotter than the Fed expected, and the last Job Openings and Labor Turnover Survey (JOLTS) reported a record-high 9.3 million job openings in the US at the end of April. The Fed recognizes that jobs are available for those who want to enter the labor market, and despite ongoing frictions (enhanced unemployment benefits, childcare, and health concerns) we should see strong labor market gains through the second half of 2021.

We've written in the past that investors should believe the Fed when they say they will be data dependent. There's no playbook for reopening after a pandemic, and they are not going to pretend otherwise. The Fed has been primarily focused on employment gains, but this meeting was a signal that they will become more hawkish when necessary.

Fig. 1: Inflation expectations have been falling since early May



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	-1.9%	10.1%	35.8%	13.1%	14.5%	9.9%
US Equities	-2.0%	11.6%	39.2%	16.7%	17.5%	14.6%
International Equities	-2.4%	8.9%	31.1%	7.9%	10.5%	6.2%
Emerging Market Equities	-1.5%	6.2%	39.5%	9.7%	13.6%	4.5%
US Taxable Bond Market	0.1%	-1.6%	-0.1%	5.5%	3.2%	3.3%
US Municipal Bond Market	-0.3%	0.3%	2.6%	3.9%	2.5%	2.9%
Hedge Fund Index	-0.4%	3.5%	12.0%	4.0%	4.2%	1.9%
Diversified Commodities	-4.3%	16.5%	41.9%	2.5%	1.6%	-4.9%
Gold	-6.0%	-7.1%	2.4%	11.3%	6.3%	1.3%

Key Rates (as of stated date)	6/21/21	1/1/21	6/21/20	6/21/18	6/21/16	6/21/11
US 10-Year Treasury	1.5%	0.9%	0.7%	2.9%	1.7%	3.0%
Barclays Aggregate Bond Index	1.5%	1.1%	1.3%	3.3%	2.1%	2.8%
BBarc Muni 1-10Yr Blend (1-12) Index	0.6%	0.6%	1.0%	2.2%	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