View as Webpage

Mill Creek House View Summary:

We're happy to introduce the Mill Creek House View Summary, a one-page distillation of our market perspective that will be provided as a link in our weekly commentary email. We aim to make it easier for you to find the topical information you are looking for on an ongoing basis.

VIEW SUMMARY HERE

Market Comment:

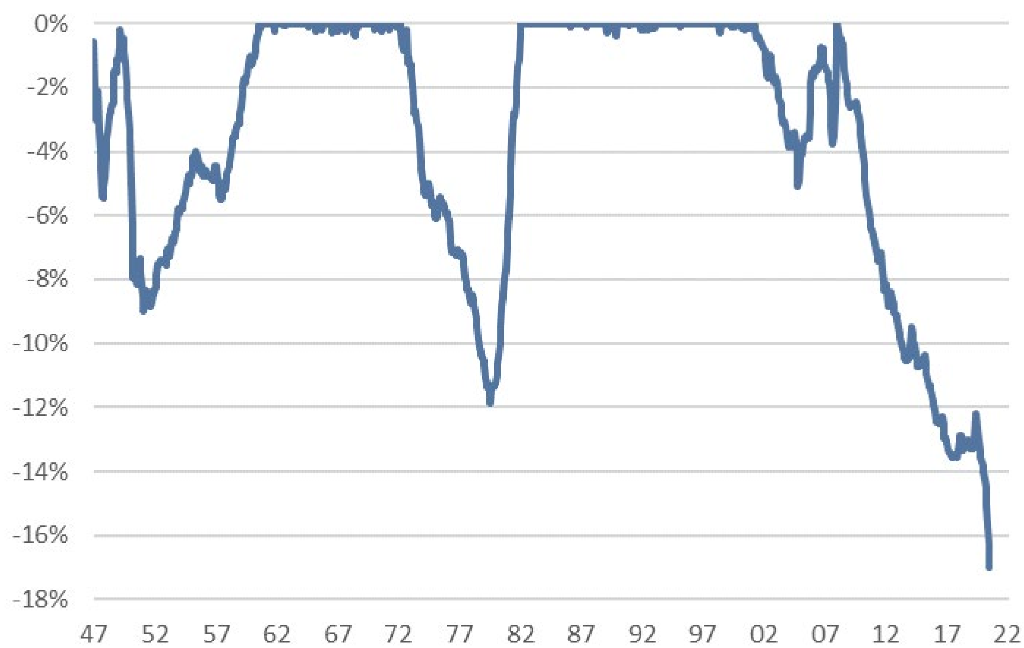
The Consumer Price Index increased 0.9% in the month of June and 5.4% for the last twelve months, presenting a stark reminder about the high cost of seeking short-term price stability in investment assets. Regardless of whether inflationary pressures are transitory, temporary (a refinement of *transitory* that has recently entered Fed Speak), or sustained, cash holdings are losing purchasing power at a rate unprecedented in the post-WW2 era.

Since 2009, the purchasing power of cash and cash equivalents has declined by 17% (Fig. 1). Even if inflation moderates over the next year, we are unlikely to see short-term interest rates increase until 2023. It could be another 2-5 years — assuming all goes as planned for the Fed — before the yield on cash exceeds the prevailing rate of inflation. Back-of-the-envelope math suggests an additional 5-10% loss of purchasing power on cash positions over that period.

We expect high quality fixed income to soundly outperform cash, but at starting yields of 0.56% and 1.44% for municipal and taxable bonds, respectively, they will also struggle to outpace inflation. Still, there is no substitute for holding your next 5 years of spending needs in high-quality bonds.

We believe diversified private credit and absolute return hedge fund strategies will produce positive inflation-adjusted returns, but these strategies require some tolerance for illiquidity and will exhibit modest drawdowns in line with the riskier parts of the bond market. For true long-term assets, public and private equity offer no certainty around short-term price stability but have produced positive inflation-adjusted returns 87% of the time over 10-year horizons since 1970.

Fig.1: Erosions of purchasing power in cash holdings, 1947-current



Sources: FRED, Mill Creek. Cash represented by 3-month Treasury Bills.

Benchmark Performance:

Benchmark Performance by Asset Class						
Benchmark Returns	One Week	Year to Date	1 Year	3 Years	5 Years	10 Years
Global Equities	-0.6%	12.2%	33.6%	13.8%	13.9%	10.0%
US Equities	-1.5%	14.9%	38.7%	17.5%	17.1%	14.6%
International Equities	-0.5%	8.8%	27.0%	8.0%	9.7%	6.2%
Emerging Market Equities	1.7%	4.9%	30.5%	10.2%	11.6%	4.2%
US Taxable Bond Market	0.2%	-0.9%	-0.5%	5.5%	3.2%	3.4%
US Municipal Bond Market	0.1%	0.8%	2.3%	3.9%	2.6%	3.0%
Hedge Fund Index	-0.2%	3.5%	10.8%	4.0%	4.0%	1.8%
Diversified Commodities	1.0%	21.0%	42.2%	5.7%	2.9%	-4.9%
Gold	0.2%	-4.6%	0.8%	13.5%	6.3%	1.3%

Key Rates (as of stated date)	7/19/21	1/1/21	7/19/20	7/19/18	7/19/16	7/19/11
US 10-Year Treasury	1.2%	0.9%	0.6%	2.8%	1.6%	2.9%
Barclays Aggregate Bond Index	1.4%	1.1%	1.2%	3.3%	1.9%	2.7%
BBarc Muni 1-10Yr Blend (1-12) Index	0.6%	0.6%	0.9%	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