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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.

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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.

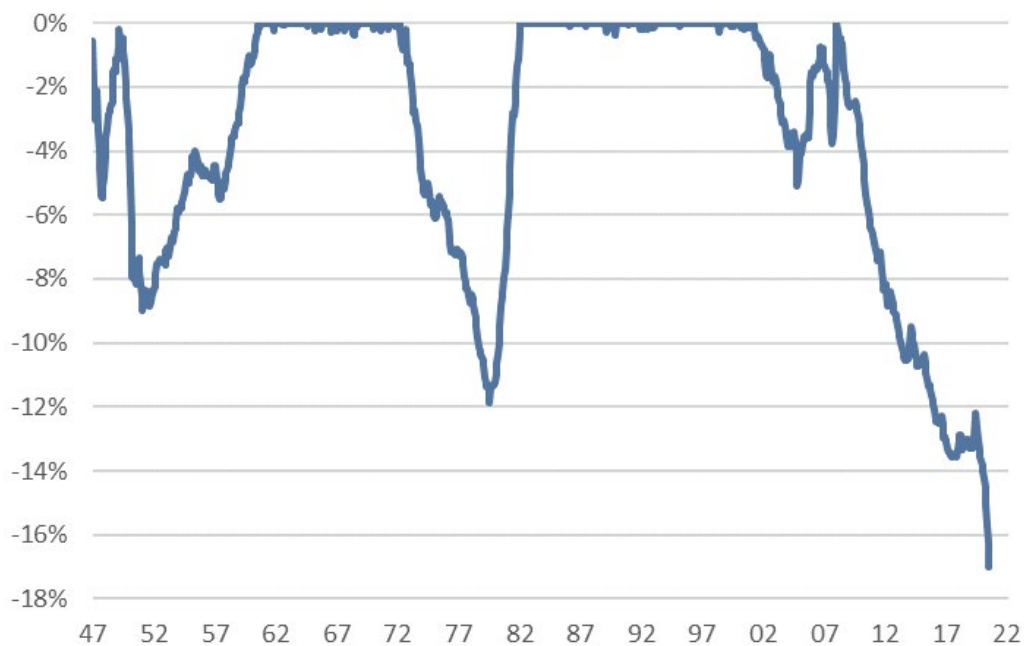
Since 2009, the purchasing power of cash and cash equivalents has declined by 17% (Fig. 1). Even if inflation moderates over the next year, we are unlikely to see short-term interest rates increase until 2023. It could be another 2-5 years — assuming all goes as planned for the Fed — before the yield 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

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