September 2021

MILL CREEK

HOUSE VIEW SUMMARY

GLOBAL ECONOMY

- Global economic real GDP growth will peak in 2021 at around 6% and moderate back to 3-4% annualized growth thereafter.
- Regional economic growth remains highly dependent on COVID response.

US ECONOMY

- US GDP growth is likely to reach 6-7% in 2021 due to pent-up demand, fiscal stimulus, and highly-accommodative monetary policy. Nominal GDP growth will potentially reach 10%.
- Abnormal frictions in the US labor market have started to subside. The US labor market has added 650,000 jobs per month, on average, since March. At the current trend we will reach pre-COVID trend employment by the end of 2022.
- Current above-trend inflation will ultimately prove transitory, but inflation will stabilize at a higher level — 2.5% — than pre-COVID.

LONG VIEW

- High quality fixed income will likely produce negative real returns, on average, over the next 7-10 years.
- Equity valuation imply positive but lower-than average returns for US equities over the next 7-10 years.
- Private equity and private credit will play an increased portfolio role in driving investment returns.

TACTICAL POSITIONING

- We have maintained our lower duration (reduced interest rate risk) position in our bond portfolios.
- We believe fixed income will outperform cash by a meaningful margin.
- We are overweight high yield municipal bonds in our tax exempt FI portfolios.
- Despite speculative behavior in some parts of the equity market, US equities are not exhibiting bubble-like characteristics. Earnings have validated the strong equity market performance over the last 18 months.
- Within equities, we are overweight US equities and small cap equities. We are underweight international developed and emerging market equities. Within emerging markets, we are overweight EM Asia.

RISKS WORTH WATCHING

- An overly-hawkish misstep by the Federal Reserve.
- An exacerbation of supply chain constraints due to a deterioration of relations between the US and China (trade), the US and Iran (oil prices), or additional port closures in China (COVID).
- Destabilizing geopolitical tensions related to China-Taiwan relations.

For additional information about our insights, please visit the relevant link shown.