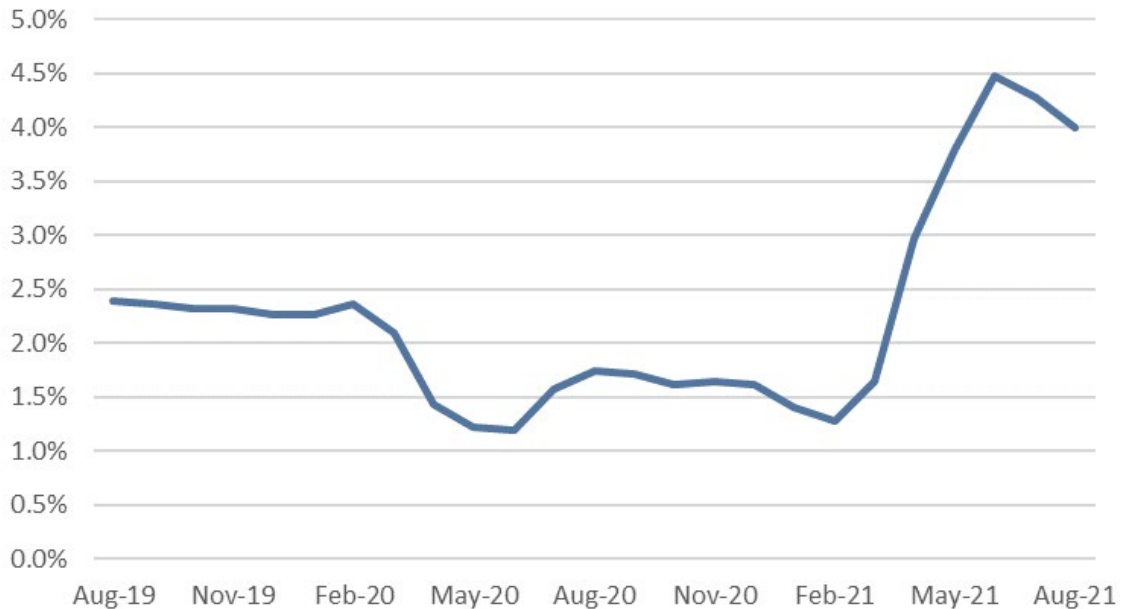


## MARKET COMMENTARY

**Fig. 1: Inflation remains high but has started decelerating**



Sources: Bloomberg, Mill Creek

A *second derivative* is a mathematical concept that refers to the rate of change of a rate of change. When you are driving a car, your speed is the *first derivative* (a rate of change). Your acceleration is the *second derivative* (the rate of change of your speed). As economic data is released over the next 6 months, the second derivative of that data will be more important than the first when judging the state of the economy.

The most recent print of the Consumer Price Index (CPI), released last Tuesday, provides a good example. The year-over-year change in core CPI as of August was 4.0% on a year-over-year basis. However, the second derivative of inflation (the rate of change of the rate of change) has declined. Inflation was annualizing at 4.5% in June, 4.3% in July, and is now at 4% for August. The car is going too fast but is slowing down.

These data points add credence to our view that, following a temporary period of higher inflation, we'd see inflation slowly moderate back to a longer-run average of 2.5%. We published that view at the end of last year, when inflation was around 1.5%, bond market participants expected inflation to remain below 2% for 15 years, and the median investment bank forecaster still expected inflation to average 2% in 2021. Those forecasts were wrong then, and the unfortunate fearmongering around out-of-control inflation is wrong now.

Inflation will remain elevated well into 2022. Supply chain disruptions will continue to create cost pressures. Housing inflation, which has remained subdued thus far, is starting to creep

upward. There are 10.9 million job openings in the US and a slowdown in employment gains could result in sustained labor cost pressures. But these issues are *risks* to the trend that bear watching, not the most likely outcome at this point.

## QUICK LINKS

- [House View Summary](#)
- [Q2'21 Macroeconomic Outlook](#)
- [Q2'21 Equity Outlook](#)
- [Q2'21 Fixed Income Outlook](#)
- [Q2'21 Private Equity Outlook](#)

*This week's contributor: Michael Crook, CAIA*

This publication has been prepared by Mill Creek Capital Advisors, LLC ("MCCA"). The publication is provided for information purposes only. The information contained in this publication has been obtained from sources that MCCA believes to be reliable, but MCCA does not represent or warrant that it is accurate or complete. The views in this publication are those of MCCA and are subject to change, and MCCA has no obligation to update its opinions or the information in this publication. While MCCA has obtained information believed to be reliable, MCCA, nor any of their respective officers, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this publication or its contents.

© 2021 All rights reserved. Trademarks "Mill Creek," "Mill Creek Capital" and "Mill Creek Capital Advisors" are the exclusive property of Mill Creek Capital Advisors, LLC, are registered in the U.S. Patent and Trademark Office, and may not be used without written permission.