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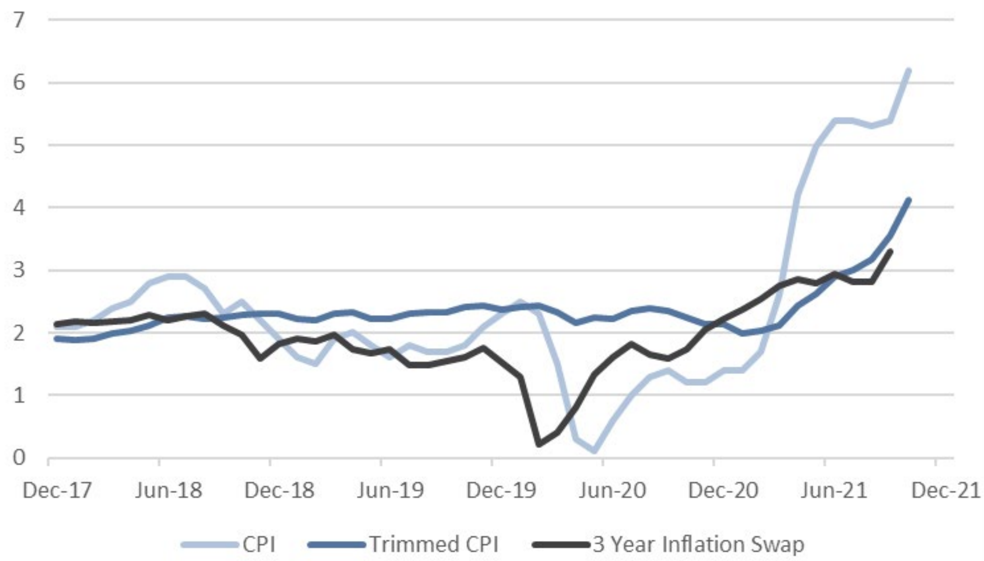
WEEKLY MARKET UPDATE
November 15, 2021

MARKET COMMENTARY

FIG. 1: Indicators of inflation continue to increase



Sources: Bloomberg, Mill Creek.

"Trimmed CPI" is a measure of inflation's breadth across consumer items. 3-year inflation swaps are an indication of how market participants are pricing inflation for the next three years.

Inflation, as measured by the Consumer Price Index (CPI), rose 0.9% in October and 6.2% over the last 12 months. A 0.9% monthly increase is equivalent to 11.9% annualized, so inflation is both high and — at least for the moment — accelerating. Market-based measures of inflation expectations have also moved higher, and inflation is broadening from a few narrow items to a wider range of consumption goods (Fig. 1).

The Fed has said that they intend to ignore higher levels of inflation until at least mid-2022. They hope that labor markets will continue to heal and many of the current inflation catalysts, like unusually high levels of aggregate consumption and supply chain bottlenecks, will resolve themselves over the next 6-9 months.

The Fed hasn't faced this situation since the 1960s, so we shouldn't have high confidence in any one potential outcome, but it is clear that inflation will remain elevated into next year. Our advice remains consistent: favor equities and other risk assets, like private credit, hedge funds, and private equity, that can provide positive inflation-adjusted returns. High-quality bonds still have a role in portfolios, but only to the extent that they are necessary for risk tolerance and risk capacity reasons. Excess cash should be avoided. Cash has lost 20% of it's purchasing power since 2009 and, best case, it'll be 2-3 years before the inflation-adjusted yield on cash returns to positive territory.

QUICK LINKS

- House View Summary
- Q3'21 Macroeconomic Outlook
- Q3'21 Equity Outlook
- Q3'21 Fixed Income Outlook
- Q3'21 Private Equity Outlook

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