

MILL CREEK

Our values appreciate yours

WEEKLY MARKET UPDATE

December 27, 2021

MARKET COMMENTARY



I found this letter in my stocking on Saturday morning. The Grinch really is a heel.

These don't represent our views, but they're worth considering, nevertheless. Please check out our [Year Ahead report](#) for a less Grinchy outlook.

Dear Mill Creek,

I read your Year Ahead report and must say that I disagree with everything in it. High economic growth and moderating inflation – ha! Strong household incomes and balance sheets –double ha! Poor fixed income returns – triple ha! Little Cindy-Lou Who is less gullible than you.

If you didn't notice, the Fed already ended the economic recovery just by talking about reducing accommodation. Interest rates, commodity prices, and market-based measures of future inflation have dropped like toys off Mount Crumpit. The dollar – strong throughout 2021 – has flatlined since Jay Powell (he's the real Grinch, not me) turned hawkish.

You said you're watching aggregate household incomes as a sign that inflation has taken hold in a wage-price spiral. That's the exact opposite of what you should be worried about right now. We dumped millions of dollars into the economy, creating an illusion of wealth and high demand. Families are wasting money on "Pop guns! And bicycles! Roller Skates! Drums! Checkerboards! Tricycles! Popcorn! And plums!"¹ Supply constraints this year will be gluts next year. Prices will crater (profits too).

Meanwhile US equity valuations haven't been this high since 2000 and we're once again in a narrow market that relies on a handful of stocks to drive returns. Households won't feel so rich when equity prices have fallen 40%. And don't look outside the US for help - many countries are about to – once again – willingly manufacture recessions to suppress COVID cases.

Hold cash. Buy Treasuries. The only thing growing three sizes next year is our federal budget deficit.

With a sour, Grinchy frown,

The Grinch

¹“How the Grinch Stole Christmas”, Dr. Seuss

QUICK LINKS

- [Year Ahead 2022: Hurry Up and Wait](#)
- [Mill Creek Chief Investment Officer Transition Plan](#)
- [House View Summary](#)

This week’s contributor: Michael Crook, CAIA

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