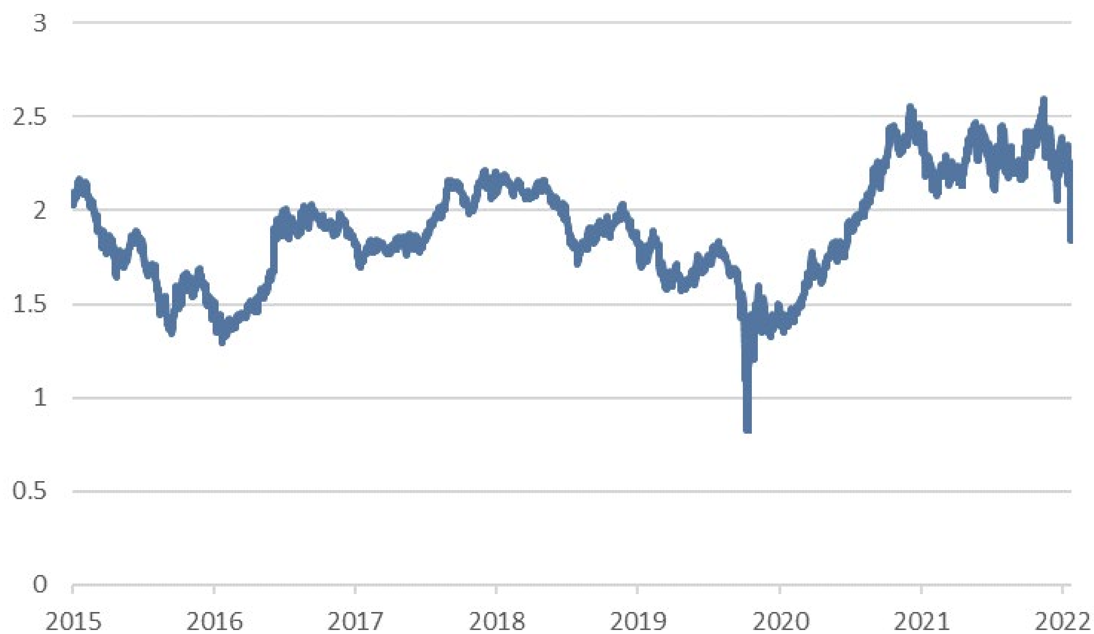
MARKET COMMENTARY

Fig. 1: Five-year Forward Breakeven Inflation Rate



Source: Bloomberg, Mill Creek. This rate is a market-based measure of average inflation starting five years from now and going five years into the future – in other words, the average inflation rate for the last five years of the next decade.

There have only been three calendar quarters in the last 45 years where US stocks, international stocks, Treasuries, corporate fixed income, commodities, gold, and hedge funds all lost value at the same time. They were 1Q 1980, 2Q 1984, and 2Q 2022. The distinguishing characteristics of those periods are inflation, slowing economic growth, and a hawkish Fed.

We discussed the 1980 time period in our recently published report, "Q3 2022 Outlook: The Volcker Playbook," but 1984 and 2022 were similar – if less extreme. The upshot tends to be that highly correlated environments don't last forever. We expect the Fed to continue with rate hikes and hawkish "Fed speak" through the end of this year as they've said they need to see multiple months of declining inflation before shifting policy. However, we believe forward-looking indicators like the Fed's Five-year Forward Breakeven Inflation Rate signal that 2022's hawkishness has the desired effect and the Fed might be able to shift gears at the end of this year.

QUICK LINKS

- Q3 2022 Outlook
- A Housing Reset?
- Private Equity: When Will We Feel the Pain?
- A Powell Surprise

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