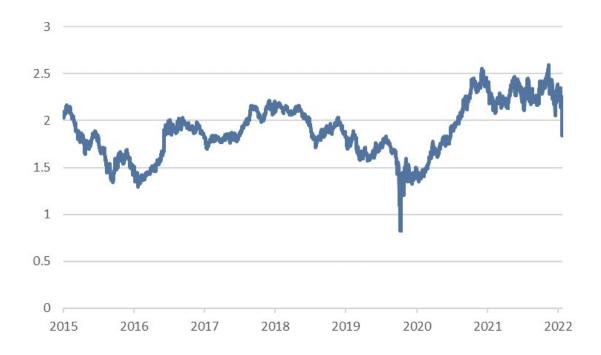


MARKET COMMENTARY

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 <u>Fed's Five-year Forward Breakeven</u> <u>Inflation Rate</u> 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

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

This week's contributor: Michael Crook, CAIA

Any views expressed above represent the opinions of Mill Creek Capital Advisers ("MCCA") and are not intended as a forecast or guarantee of future results. This information is for educational purposes only. It is not intended to provide, and should not be relied upon for, particular investment advice. This publication has been prepared by 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.

© 2022 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.