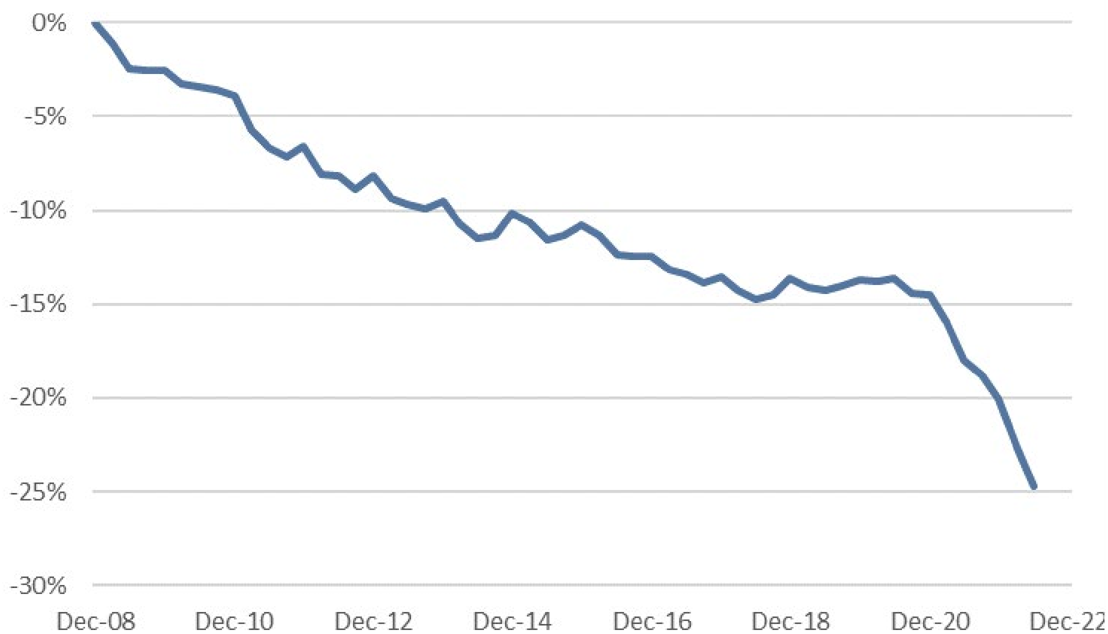
MARKET COMMENTARY

Fig. 1: Inflation-adjusted return for invested cash (2009 – July 2022)



Source: Morningstar, Mill Creek.

It is hard to find an investment that has done worse than cash since the collapse of Lehman Brothers in 2008. Invested cash, as proxied by US Treasury Bills, returned 0.53% annualized between January 2009 and July 2022. Commodities faired only slightly better, at 0.79% per year, but the major holdings in diversified investment portfolios did quite well. High-quality bonds returned 3-4% per year and global equities annualized at over 10%. Cash has been trash.

Accounting for inflation makes the picture even bleaker. The inflation-adjusted return on invested cash was -25% between December 2008 and July 2022 (Fig. 1). Low yields between 2009 and 2017 were insufficient to outpace the anemic inflation we experienced during that period. It was a slow bleed, but deadly. Our recent bout of high inflation has exacerbated the loss of purchasing power even more.

Fortunately, the Fed's hawkishness has brought some relief. For example, many purchased money market funds now offer yields of above 2% and taxable investors will find purchased municipal money market funds with taxable-equivalent yields of 2-2.5%, depending on their tax rate. These yields will likely continue to climb as the Fed raises rates through the rest of the year.

We're likely to see a Fed funds rate, and therefore cash yields, of 3% or higher by the end of this year. Market participants currently expect inflation to average 3.2% over the next year. While the prospects for positive inflation-adjusted returns on cash remain low in the near term, we're getting close to break-even with inflation, which would be a significant improvement over the last 14 years.

QUICK LINKS

- How Will Investors Face Q2 Valuations?
- Earnings Rise Albeit at a Slower Pace Than Prior Quarters
- August Update: Recession?
- What an Inverted Yield Curve Could Mean for US Economic Conditions?

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