

MARKET REVIEW

- Equity markets continued to rally in November. A falling dollar led to considerable outperformance in international markets.
- US Treasury, corporate, and municipal bond rates moderated off October highs. Credit spreads also declined. The Bloomberg Aggregate Bond Index and Bloomberg Municipal 1-10 Yr Blend (1-12) Bond Index produced positive returns of 3.7% and 2.9%, respectively.
- Despite a decline in oil prices, commodities produced slightly positive returns in October.

WHAT'S NEXT FOR THE FED?

There's one big question facing the Federal Open Market Committee (FOMC), investors, and business operators: was October's lower-than-expected Consumer Price Index an important turning point in the fight against inflation or another head fake that will result in more pain down the road?

Markets certainly responded as though it was the turning point for which they've been waiting. Since early November, equity markets have rallied, interest rates have declined, and credit spreads have compressed. Expectations for future Fed rate hikes have also been stable and imply a path that gets the Fed Funds rate to about 5% in spring 2023, at which point market participants expect the Fed to pause and wait.

While one decent inflation print is a good sign, it's not enough to claim victory quite yet. Last week, Federal Reserve Bank of St. Louis President James Bullard pointedly said that markets are underestimating the likelihood that the Fed will need to hike significantly in 2023. In reality, no one knows exactly how inflation, or Fed policy, will progress next year.

Currently, market participants expect unemployment to rise and inflation to fall over the next four or five months as the Fed approaches 5%. Most FOMC members have been leaning into that view and would like to find a reasonable time to pause while the cumulative effect of 2022's hiking cycle permeates through the economy. Most indicators of inflation suggest that inflation is broad-based through goods and services and running at about 5%. We'll need to see a range of economic variables point in the right direction by March for the Fed to pause. Those include:

1. Nominal income growth moderating toward 5%,
2. Signs that labor market tightness is dissipating, and
3. Realized inflation trending downward.

CURRENT POSITIONING

This guidance refers to model portfolio positioning approved by the Mill Creek Investment Committee and does not reflect specific client circumstances, tax situations, or other constraints.

- We are neutral duration and overweight high yield in our taxable bond portfolios.
- Our taxable bond portfolios are also neutral duration and contain a high yield municipal bond position.
- We are overweight US, value, and low volatility equities.
- We continue to see value in private debt and private equity allocations in the current environment.

QUICK LINKS

- [Turkey Inflation](#)
- [Our Perspective: Emerging Markets](#)
- [Near-term Macro Headwinds Persist for Non-US Stocks](#)
- [Earnings Outlook Continues to Deteriorate](#)

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