

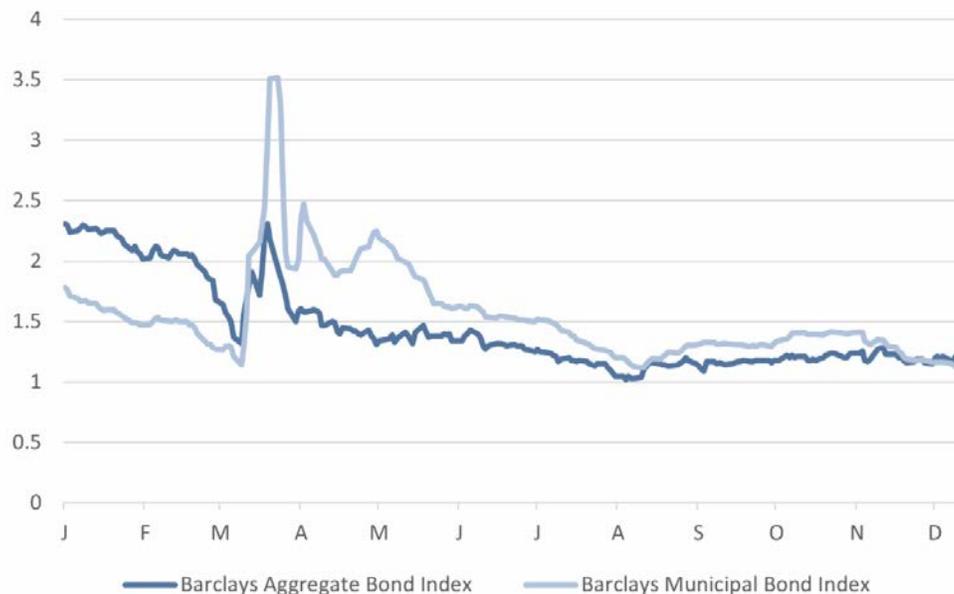


[View as Webpage](#)

Market Comment:

“Municipal Bonds Ted. I’m talking double-A rating...”

Fig. 1: Yield-to-worst on taxable and municipal bonds (2020 year-to-date)



Source: Bloomberg, Mill Creek

Last Thursday we published a White Paper titled “[Taxable Fixed Income: What Hath COVID Wrought?](#)” which discusses why we are modestly reducing duration within our taxable fixed income portfolios.

At the present time we are not reducing duration within non-taxable (municipal) fixed income portfolios. The Base Case scenario we discuss in the paper, namely that interest rates will be driven higher by a combination of economic growth, higher inflation expectations, and a very gradual retraction of Fed policy support, will take 3-5 years to play out. Municipal bond yields will also rise if our Base Case plays out, but we believe our current municipal bond positioning of 4-5 years duration adequately shields portfolios from extensive interest rate risk at the current time.

Additionally — and in contrast to the taxable debt market — the municipal bond sector has not fully recovered from the spring sell-off. We continue to see value on a tax- and risk-adjusted basis. Investor-specific bond portfolios will differ slightly based on state of residency, but the yield-to-worst on the Bloomberg Barclays Municipal Bond Index is currently 1.13%, which is very close to the yield on the taxable bond market index (1.18%) before accounting for the tax benefit. An equivalent yield on a taxable bond would need to be 1.7%, or higher, depending on an investor’s marginal tax rate.

Updated Benchmark Performance:

Benchmark Performance by Asset Class			
	Week-to-Date	Month-to-Date	Year-to-Date
U.S. Large Cap Equities	-0.76%	1.46%	17.75%
U.S. Small Cap Equities	1.03%	5.08%	16.02%
International Developed Equities	-0.51%	1.79%	4.87%
Emerging Markets Equities	0.54%	4.38%	15.03%
Global Equities	-0.50%	1.91%	13.22%
U.S. Bonds	0.35%	-0.14%	7.21%
Intermediate Municipal Bonds	0.18%	0.24%	4.07%
High Yield Bonds	0.18%	0.97%	6.15%
Oil	1.45%	4.07%	-34.06%
Gold	0.20%	3.52%	17.66%
Key Rates	12/11/2020	12/31/2019	12/11/2019
U.S. 2 Year Treasury Note	0.11	1.58	1.61
U.S. 10 Year Treasury Note	0.90	1.92	1.79

Week in Review:

Two of the most high-profile private companies in the US, DoorDash and Airbnb, went public last week and were very well received by the market. DoorDash shares were up 86% in its debut on Wednesday while Airbnb's stock price more than doubled in its debut on Thursday. The IPO frenzy in the US has driven valuations of newly public companies to their highest levels since 2000, prompting comparisons to the dot com bubble. According to Bloomberg, this month the US IPO market is set to raise \$8.3 billion, the highest ever total for the month of December. More than \$157 billion has been raised on US exchanges so far this year, easily surpassing the record set in 1999.

- **DoorDash:** On-demand food delivery services and logistics provider based in San Francisco. The company is the market leader in the US with 50% market share after tripling revenue and orders this year from 2019. Turned its first profit ever in the second quarter of this year but went back into the negative with a \$43 million loss on \$879 million in revenue for the quarter ended Sept. 30. For the same period in 2019, DoorDash lost \$152 million on \$239 million in revenue. The company was valued at \$71.8 billion after its first day of trading.
- **Airbnb:** San Francisco-based online vacation rental marketplace. The company raised \$2 billion of debt at a valuation of \$18 billion eight months ago. After its public debut, Airbnb was given a valuation of \$100 billion, more than Hyatt, Intercontinental, Hilton, and Marriott combined. The company lost \$674 million on \$4.8 billion in revenue in 2019. For the third quarter, typically a strong quarter for Airbnb due to seasonal factors, revenues totaled \$1.34 billion and the company turned a profit of \$219 million.

Economic Calendar:

- Retail Sales – Wednesday, December 16th
- Weekly Jobless Claims – Thursday, December 17th
- Housing Starts – Thursday, December 17th

This week's contributors: Michael Crook, CAIA, Nora Pickens, CAIA and Dusko Jankovic, CFA, CAIA

Indices Used: U.S. Large Cap equities: Russell 1000 Index, U.S. Small Cap Equities: Russell 2000 Index, International Developed Equities: MSCI EAFE Index, Emerging Market Equities: MSCI Emerging Markets Index, U.S. Bonds: Barclays Aggregate Bond Index, U.S. 10 Year Treasury Note: Bloomberg 10 Yr. Treasury Note, Municipal Bonds: Barclays Intermediate Municipal Bond Total Return Index, High Yield Bonds: Barclays U.S. High Yield Total Return Index, Oil: Bloomberg WTI Crude Sub-Index Total Return Index, Gold: Bloomberg Gold Sub-Index Total Return Index

This publication has been prepared by Mill Creek Capital Advisors, LLC ("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,

MILL CREEK

Our values appreciate yours

WEEKLY MARKET UPDATE
December 14, 2020

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.

