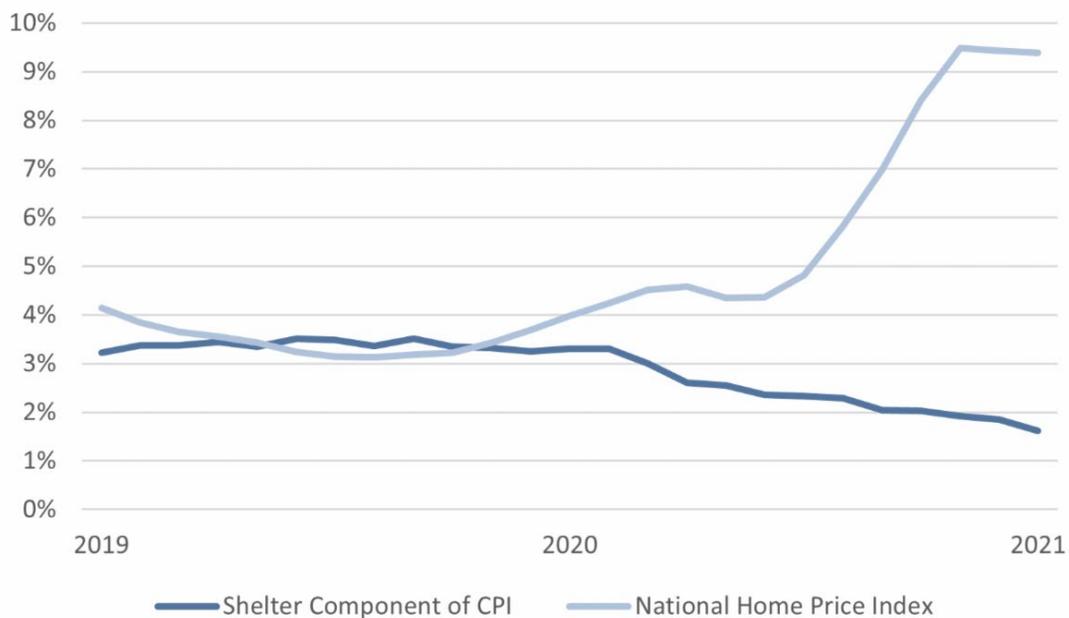




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Market Comment:



Source: Bloomberg, Mill Creek. Chart shows year-over-year change.

In 1996, Fed Chair Alan Greenspan [made the following comment:](#)

*But how do we know when **irrational exuberance** has unduly escalated asset values, which then become subject to unexpected and prolonged contractions as they have in Japan over the past decade?*

The phrase “irrational exuberance” made it into the popular investment lexicon and became the title for [Robert Shiller’s book](#) about speculative manias and the dot-com bubble. A lot has changed at the Fed over the last 25 years. Perhaps most importantly, current Fed Chair Jerome Powell made it clear that the FOMC will ignore asset prices in pursuing labor market gains. ***Patiently accommodative*** has replaced irrational exuberance ([New York Economic Society](#)):

Also important is a patiently accommodative monetary policy stance that embraces the lessons of the past—about the labor market in particular and the economy more generally...

Investors are aware that asset prices have accelerated upward in virtually every market. On the other hand, the Fed continues to message that inflation remains below target. How do we square that circle? The housing market provides the best current example.

National home prices have increased nearly 10% since the beginning of the pandemic, but the shelter component of in the Consumer Price Index — which makes up 33% of the CPI Index — has only increased 1.6%^[1]. Greenspan would have paid attention to the 10% price increase, but Powell is only looking at the 1.6% shelter inflation component increase.

Bottom line – Due to COVID-induced constraints on consumer spending and government transfer payments, American households — in aggregate — have experienced a windfall wealth event. Some of that new wealth will eventually be spent, but it is not surprising that some of that new wealth is showing up in asset prices. Unlike Greenspan, Powell is not going to be distracted from his labor market goals and attempt to “prick” resultant bubbles through monetary policy.

^[1] We can hear virtually every reader in unison saying - “What?!?! The BLS thinks shelter prices have only increased by 1.6% in the last year?” It’s a completely reasonable response. Your personal inflation rate could be very different than the market inflation rate from a general price level perspective. We’ll be addressing that issue, and others, in a series on inflation that will be launched in March.

Updated Benchmark Performance:

Benchmark Performance by Asset Class			
	Week-to-Date	Month-to-Date	Year-to-Date
U.S. Large Cap Equities	-0.71%	5.80%	4.92%
U.S. Small Cap Equities	-0.98%	9.37%	14.88%
International Developed Equities	0.27%	5.19%	4.07%
Emerging Markets Equities	0.09%	7.58%	10.88%
Global Equities	-0.34%	5.80%	5.32%
U.S. Bonds	-0.57%	-1.09%	-1.80%
Intermediate Municipal Bonds	-0.50%	-0.28%	0.10%
High Yield Bonds	-0.05%	0.96%	1.30%
Oil	0.42%	13.38%	20.53%
Gold	-2.51%	-3.94%	-6.41%
Key Rates	2/19/2021	12/31/2020	2/19/2020
U.S. 2 Year Treasury Note	0.11	0.13	1.42
U.S. 10 Year Treasury Note	1.34	0.93	1.56

Week in Review:

Despite a mixed week for equities, the latest economic data and COVID-19 vaccination data point to an optimistic outlook this year.

- New cases, hospitalizations, and deaths from COVID-19 have been dropping dramatically as the vaccination rollout continues. The US has administered over 63 million doses of the vaccine thus far. Worldwide, the number of doses has surpassed 208 million.
- Retail sales grew 5.3% in January from the previous month, beating economists' expectations. The stimulus measure passed by Congress in December was partially credited with the sharp increase.
- As inflation expectations continued to increase, yields on government bonds rose to levels not seen in nearly a year with the 10-year yield reaching 1.34%, and the 30-year bond yielding 2.14%.
- Strength in the housing market continued, with the National Association of Realtors reporting a 0.6% increase in sales of existing homes in January compared with December. Sales soared nearly 24% when compared to January of last year.

Economic Calendar:

- Consumer Confidence Index – Tuesday, February 23rd
- New Home Sales – Wednesday, February 24th
- Q4 GDP – Thursday, February 25th
- Personal Income and Consumer Spending – Friday, February 26th

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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

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