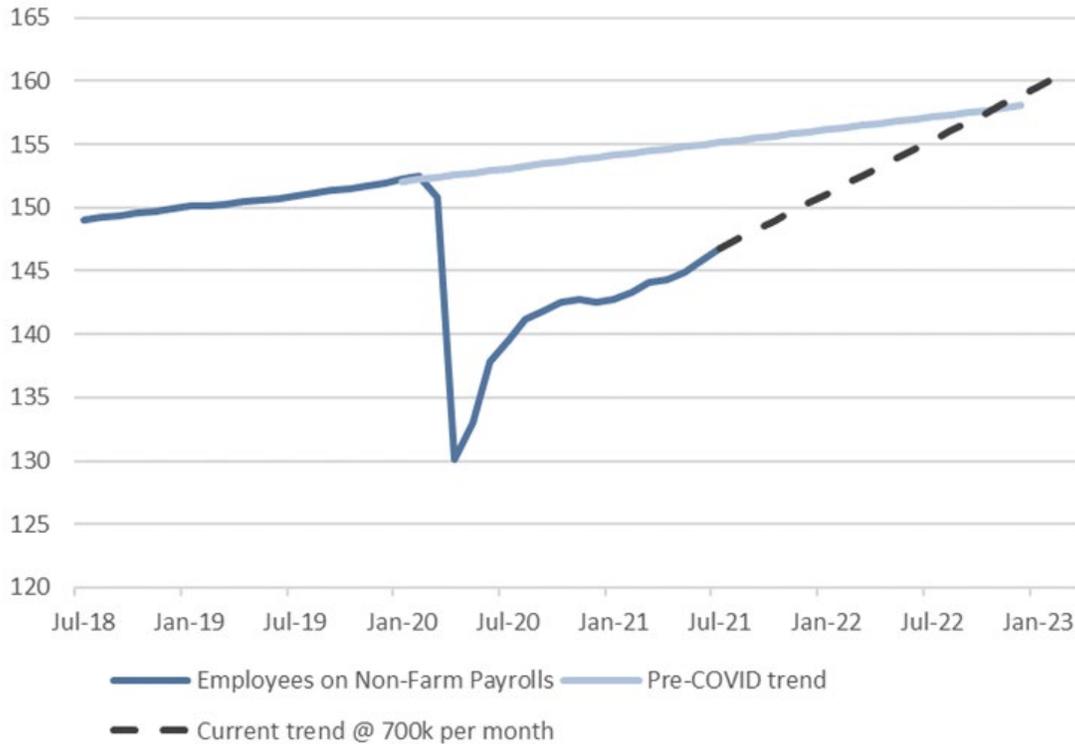


MARKET COMMENTARY

FIG. 1: Labor markets are on pace to recover by early 2023
Non-farm Payrolls (Millions)



Sources: Bloomberg, Mill Creek

In March 2020, the Federal Reserve began a Treasury and Agency bond-buying program intended to support market functioning and credit availability. Since then, the Fed’s balance sheet has grown from approximately \$4 trillion to \$8 trillion. Absent a severe change to economic conditions, the Federal Reserve will slow down those asset purchases sometime in October or November of this year and stop them completely sometime in mid-2023.

If the Fed was only focused on price stability (a euphemism for average inflation of about 2%) it would have started tapering before now. The deflationary concerns of March and April 2020 are long-gone and the Personal Consumption Expenditures Price Index, the Fed’s preferred measure of inflation, is likely to increase by 3.5% this year. It was the other part of the Fed’s dual mandate – employment – that has held it back.

However, we are now at the point that the Fed can say labor markets have made substantial progress. The US economy has added an average of 700,000 jobs per month since March of this year, the pace of job gains quickened to 940,000 jobs per month over the last two months, and there are a record

10.1 million job openings in in the US. At the current trend, we'll be back to pre-COVID labor markets by the end of 2022.

Fed Chair Jerome Powell will likely lay the groundwork for tapering at this week's Jackson Hole Economic Symposium, but the conclusion is forgone – all that remains is to fill in the details around specific timing and pacing. In our opinion, investors need not be concerned about the start of asset purchase tapering. The Federal Open Market Committee's post-meeting statements have been clear that asset purchases will continue "until substantial further progress has been made toward its maximum employment and price stability goals." It is a positive sign for markets that we have made that substantial progress.

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