

## MARKET COMMENTARY

During the Federal Open Market Committee (FOMC) press conference last week, AP reporter Christopher Rugaber asked Fed Chair Powell the following question:

*"It looks like stock and bond markets are reacting positively to your announcement so far. Is that something you wanted to see?"*

The only problem with this question was that Rugaber was looking at stale market data. Markets had reacted negatively, not positively, to Powell's hawkish message at the press conference. Powell looked visibly disturbed at learning markets were rallying and replied with a laundry list of reasons market participants shouldn't positively interpret their policy message:

*"...what I'm trying to do is make sure that our message is clear, which is that we think we have a ways to go, we have some ground to cover with interest rates before we get to, before we get to that level of interest rates that we think is sufficiently restrictive... I've also said that we think that the level of rates that we estimated in September, the incoming data suggests that that's actually going to be higher and that's been the pattern. I mean I would have little confidence that the forecast... We're exactly where we were a year ago. So, okay, so I would also say it's premature to discuss pausing. And it's not something that we're thinking about, that's really not a conversation to be had now. We have a ways to go. And the last thing I'll say is that I would want people to understand our commitment to getting this done. And to not making the mistake of not doing enough or the mistake of withdrawing our strong policy and doing that too soon."*

In other words, October's market rally was an unwelcome development. Powell continues to follow the playbook we laid out in ["The Volcker Playbook"](#) and at this point, we believe 5% (the market's terminal Fed funds rate expectation) continues to be a floor on where they will end up. A terminal 5.5% Fed Funds rate is more likely, and 6% remains in play if the labor market and aggregate demand don't begin to slow immediately. Hikes are likely to continue through May 2023 as a baseline.

**What does this mean for investors?** Perhaps the most important is that the higher interest rate environment means — for the first time in 15 years — we're increasingly focused on locking in attractive cash flows for the longer term. For example, we recently **increased our allocation to high dividend equities** in our tactical equity models and **added a high yield bond position** (the Bloomberg Corporate High Yield Index currently has a 9.2% yield-to-worst) to our taxable fixed income models. Municipal bonds offer yields over 4%, or +6.5% on a tax-equivalent basis. Turmoil begets opportunity, and we're starting to see those opportunities manifest in this market.

## QUICK LINKS

- [November Update: A Market-Led Fed Pivot?](#)
- [Taking Advantage of Higher Bond Yields](#)
- [Preparing for a Recession with Low Volatility Equities](#)
- [The Faintest Glow at the End of the Tunnel](#)

***This week's contributor: Michael Crook, CAIA***

Any views expressed above represent the opinions of Mill Creek Capital Advisers ("MCCA") and are not intended as a forecast or guarantee of future results. This information is for educational purposes only. It is not intended to provide, and should not be relied upon for, particular investment advice. This publication has been prepared by 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, 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.

© 2022 All rights reserved. Trademarks "Mill Creek," "Mill Creek Capital" and "Mill Creek Capital Advisors" are the exclusive property of Mill Creek Capital Advisers, LLC, are registered in the U.S. Patent and Trademark Office, and may not be used without written permission.