MEKETA
INVESTMENT GROUP

GLOBAL MACROECONOMIC WORKING GROUP

Near-term Market Assessment October 2020

Purpose

This document provides summary observations made by a group of Meketa investment professionals on a monthly basis that are based on a variety of market and economic factors. It is meant to be a high level overview of our aggregated views on current market trends. These views are used in a variety of ways to inform near-term portfolio construction.

Current Market Conditions

Market direction is increasingly difficult to predict given the looming US elections and their impacts. While additional fiscal stimulus does not appear to be forthcoming in the US in the short-term, it is likely that a package will ultimately be approved after the election with its content highly dependent on the election outcome. Monetary policy remains accommodative, providing support to risk assets; however, monetary policy is not a panacea. Valuations are stretched in the US equity market and momentum has waned after a strong recovery. Long-term interest rates have begun to increase, putting the rally in growth stocks at risk. International developed markets offer better relative valuations when compared to the US, but core markets in Europe now face a resurgence of the virus and fading support for additional fiscal stimulus. Emerging markets, led by China, have been more resilient, and China continues to remain on a course of cautious stimulus measures. Globally, the path of COVID-19 and its treatment remain uncertain with particular concerns over a continued spike in cases as we enter the winter months in certain areas. Our positioning across asset classes and geographies, which is largely neutral, is informed by a "wait and see" approach until the election outcome and there is more clarity related to the economic impacts of COVID-19.

High Level Tactical Views

	Strongly Negative (●)	Negative (●)	Neutral (●)	Positive (●)	Strongly Positive (●)
Rate Sensitive			●		
Credit			●		
Equities			●		
Real Assets			●		

Most Recent Tactical Changes

	Strongly Negative (●)	Negative (●)	Neutral (●)	Positive (●)	Strongly Positive (●)
Within Rate Sensitive					
Cash/ST Gov't Bonds			●		
Long-Term Gov't Bonds			●		
TIPS			● ←	○	
Core Bonds			●		
Within Credit					
EM Debt Local			●		
High Yield Bonds			● ←	○	
Within Equities					
US Equity			●		
EAFE Equity			●		
EM Equity			○ →	●	
Within Real Assets					
REITs			●		
Public Natural Resources			●		
Commodities Futures			●		
Pairs					
Stocks vs. Bonds			●		
US Equities vs. Int'l Equities			●		
Short vs. Long Duration			●		
Nominal Bonds vs. TIPS			●		
High Quality vs. High Yield			●		
Risk Assets vs. Cash			●		

→ Indicates change in view from previous month

○ Indicates former position of previous month's view

Asset Class	Rationale Supporting Our Position

Within Rate Sensitive

Cash/ST Gov't Bonds ●	Economic uncertainty related to the virus with the potential for increased market volatility make these safe-haven assets attractive, offset by a lower yield offering as a result of Fed rate cuts.
Long-Term Gov't Bonds ●	While long-term government bonds offer a yield pick-up over cash, that pick up is diminished by the Fed's commitment to "lower for longer" interest rates. Furthermore, the duration/convexity profile is unappealing.
TIPS ●	Inflation expectations remain low, and central banks have largely failed to reach their inflation targets post-GFC. TIPS are also exposed to duration risk (see Long-Term Gov't Bonds). TIPS provide cheap insurance against an unexpected acceleration in inflation, but the probability of that scenario remains low.
Core Bonds ●	The Fed has pledged unprecedented support for corporate issuers, but a vast increase in corporate leverage and a rapid narrowing of spreads have reduced the risk-reward benefit of core bonds.

Within Credit

EM Debt Local ●	Trade tensions, de-globalization, and volatility in EM currencies relative to the US dollar creates headwinds for the asset class, but the spread pick-up in EM debt is considerable.
High Yield Bonds ●	Spreads have narrowed, but remain reasonable, and risk continues to be backstopped by the Fed's commitment to provide liquidity at any sign of credit market strain.

Within Equities

US Equity ●	The upcoming presidential election, uncertainty related to the next round of fiscal stimulus, and any spike in COVID-19 cases forcing curtailments of economic activity are significant near-term risks, though momentum in US equities and monetary accommodation are supportive.
EAFE Equity ●	Within EAFE, European countries are facing a potential significant rise in COVID-19 cases and have begun incremental lockdowns in hard-hit areas. Japan is grappling with the resignation of Prime Minister Shinzo Abe, with markets digesting the potential changes in direction coming from his successor, Yoshihide Suga. While monetary policy is supportive and fiscal support in the EU is reasonably strong, near-term catalysts are absent.
EM Equity ●	While the US faces an uncertain election outcome, and EAFE faces COVID-19 spikes, EM economies are beginning to recover, led by "first in, first out" China. EM Equity momentum remains constructive, as do valuations.

Within Real Assets

REITs ●	Significant impairment from rental losses and an uncertain path of the new normal in key REIT sectors like industrial property weigh on the space, which has lagged the recovery in global equities. However, REIT yields remain attractive, and the possibility of an acceleration in the recovery provides a potential tailwind.
Public Natural Resources ●	Lower demand resulting from COVID-19 restrictions creates temporary headwinds. As the gradual re-opening of economies occurs, the resource demand recovery could surprise positively off a low base, providing a tailwind for the space.
Commodities Futures ●	Supply/demand imbalances have been magnified as a result of COVID-19, with the oil market getting hit particularly hard as a result of both supply and demand shocks in early 2020. The supply side remains uncertain across the commodity complex, but demand should at least gradually recover off a low base from the depths of the 2020 contraction.

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