MEKETA
INVESTMENT GROUP

GLOBAL MACROECONOMIC INVESTMENT COMMITTEE

Near-term Market Assessment January 2021

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

Just a few days into 2021, the world watched shocking scenes of insurrection at our nation's capital. Nevertheless, politicians persevered, confirming president-elect Joe Biden. The first full week of the new year also brought an election surprise in Georgia, with two Democratic senate candidates winning and confirming a narrow control of Congress by the Democrats. President-elect Biden has indicated that he will pursue further fiscal stimulus as soon as he takes office. While the ultimate size of any possible stimulus package is uncertain, it suggests that deficit spending will continue. With a shift in the political center of gravity in the US confirmed, and the likelihood of fiscal spending increasing, we believe modest adjustments to positioning are merited. We are cautiously constructive on global equities; with policy support, lower COVID-19 risks as vaccines are deployed, and price momentum all constructive. Meanwhile, we are neutral across other high level categories. We continue to observe low yields, narrow spreads, and the potential for continued yield curve steepening in the US, all diminishing our outlook for some fixed income asset classes.

High Level Views

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

Most Recent 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		● ←	○		
Growth vs. Value (US Equities)			●		
Large vs. Small (US 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 ●	With short-term Treasury yields pinned near zero as a result of the Fed's accommodative policy stance, cash is not a very productive asset for investors at the start of the year.
Long-Term Gov't Bonds ●	While long-term government bonds offer a yield pick-up over cash, that higher yield is diminished by the potential for continued yield curve steepening as economic growth recovers, additional fiscal measures are implemented, and inflationary pressures potentially build.
TIPS ●	Inflation expectations have risen significantly since the depths of the COVID-19 crisis, as policy support was implemented and economies slowly reopened. In the short-term though inflationary pressures could be muted as the recent spike in cases weighs on economic activity.
Core Bonds ●	Core bonds continue to offer an "anchor to windward" for investors. However, spreads for investment grade bonds remain very low; while they offer a yield pick-up relative to Treasuries, and implicit Fed support remains, their relative value proposition is less appealing.
Within Credit	
EM Debt Local ●	Globally, risk appetite has accelerated in recent months, suggesting the potential for positive flows into EM economies. However, currency volatility resulting from varied COVID-19 experiences at the country level, and an acceleration of de-globalization, suggest that risks remain. Yields remain relatively attractive, but spreads have compressed to below long-term averages. Emerging market equities appear more attractive from a risk/return perspective.
High Yield Bonds ●	High yield debt offers a yield pick-up that remains attractive in this low rate environment with support for the asset class also pledged by the Fed. The higher relative yield does not come without risk though given the rapid narrowing of spreads, duration exposure, and huge increase in corporate leverage.
Within Equities	
US Equity ●	We remain cautiously optimistic on US equities, with the outcome of the 2020 elections clear, monetary/fiscal policy remaining supportive, and a pathway out of the COVID-19 pandemic. Volatility continues to decline, corporate profits are improving, and incremental data is constructive. The narrative that supported equities last year after the initial selloff was the expectation that economies would slowly reopen once a vaccine was developed. The backdrop is positive for equities, but caution is merited; with questions over how much has already been priced into markets, and with valuations stretched, US equities could disappoint. There was a clear rotation toward value and small cap stocks in the US toward the end of 2020 as we moved past the US election and the vaccine was announced. Despite the attractive valuations of value and small cap stocks, and the potential benefits of a cyclical turning point, risks remain to the recent rotation continuing, given high COVID-19 case levels and issues with the rollout of the vaccine.
EAFE Equity ●	Key EAFE markets in Europe continue to suffer from COVID-19 shocks with many of these economies already on relatively weak footing going into the pandemic. However, they are also likely to benefit far more from a potential recovery in activity as vaccines are distributed, economies re-open, and monetary/fiscal policy likely remain extremely accommodative. Valuations have approached long-term averages, but remain relatively attractive. Additionally, continued weakness in the US dollar should act as a tailwind for US investors.
EM Equity ●	EM equities offer an opportunity to invest in value oriented economies like Korea, Brazil, and Mexico, as well as China, where growth is expected to be strong this year given the quick containment of the virus and the aggressive policy measures. The emerging market space, ex.-China, struggled to cope with the pandemic, leading to weaker relative performance; as risk sentiment improves, countries that have been particularly impacted by the pandemic should benefit from capital inflows. Continued weakness in the US dollar would particularly benefit emerging markets.
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. REIT yields remain attractive, but in some cases might not be sustainable. The recent increase in interest rates also make REITs' yield component less attractive, particularly given their higher risk.
Public Natural Resources ●	As the COVID-19 pandemic recedes, natural resources represent a potentially appealing asset class. However, they increase equity risk in portfolios, leading us to favor commodities futures.
Commodities Futures ●	We are positive on commodities futures as a favorably priced asset class with upside potential as 1) the COVID-19 pandemic continues to recede, 2) the global economic output gap shrinks, 3) commodity prices creep higher given increased demand from China as a marginal price setter, and 4) the existence of positive roll yield.

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