MEKETA

INVESTMENT GROUP

GLOBAL MACROECONOMIC INVESTMENT COMMITTEE

Near-term Market Assessment March 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

Markets continue to digest incremental positive economic news in most regions of the world as economies slowly reopen and distribute vaccines. The economic recovery after COVID-19 has persisted. Market participants continue to pay close attention to the new US administration's policy agenda, which is still materializing. The Biden administration's approach to the regulation of large tech companies and corporate/individual taxation is worth continued close attention going forward. In the short-term, focus remains on the $1.9 trillion fiscal package and the potential for additional fiscal spending on infrastructure. In February, yields on US Treasuries rose rapidly on higher growth and inflation expectations as economic data on unemployment, manufacturing, services and demand (retail sales, construction, incomes) came in better than expected and given the likely additional fiscal stimulus. Equity markets stalled as they repriced and rotated out of growth / tech stocks into value / recovery stocks in light of the advancing yields. Generally, growth stocks are expected to generate more of their cash flows further into the future than value stocks; when interest rates rise, those cash flows receive a larger discount, reducing their present value.

Overall, we remain positive on equity market risk. The conditions that were in place to begin the year are holding steady with strong policy support in the US, vaccine deployment trending positively, and economic data remaining resilient. Momentum in equities continues to be positive, as well. No particular areas of fixed income appear to be particularly attractive with low rates and tight spreads respectively weighing on short-term bonds and high yield. We still favor commodities as demand picks up with economies reopening and as a hedge against an unexpected inflation surprise, given their positive roll yield.

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 – *view unchanged*.
Long-Term Gov't Bonds ●	While long-term government bonds offer a yield pick-up over cash, particularly given the recent increase in rates, 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 – *view unchanged.*
TIPS ●	Inflation breakevens have increased significantly off their lows in early 2020, making inflation-linked bonds less attractive, as they are now pricing in fairly robust inflation expectations going forward – *view unchanged.*
Core Bonds ●	Core bonds continue to provide an offset to equity risk with a yield pick-up over Treasuries. However, with spreads even tighter after the recent run-up in Treasuries, corporate bonds are priced for perfection, especially considering that debt expanded, rather than contracted, in 2020 – *view unchanged.*
Within Credit	
EM Debt Local ●	Yields remain attractive relative to developed market credit, but spreads have compressed well below long-term averages, reducing the appeal of emerging markets debt. We continue to lean towards emerging markets equities, which are more appealing from a risk/return perspective – *view unchanged.*
High Yield Bonds ●	The income pickup from high yield fixed income over core bonds has become less appealing, even as credit growth has accelerated, reducing the appeal of high yield debt relative to equities - *with credit spreads further tightening, we moved to a negative position.*
Within Equities	
US Equity ●	With monetary/fiscal policy remaining supportive, incremental economic data constructive, and a pathway out of the COVID-19 pandemic in place, equities remain attractive. While a rotation from growth to value has started to materialize, and valuations are stretched in certain COVID-19 "winners", any number of surprises related to the pandemic or the economy could cause a rapid reversal. Small cap stocks have outperformed large caps by a wide margin recently, but investors should be cautious in extrapolating this result forward – *view unchanged.*
EAFE Equity ●	Key EAFE markets in Europe, outside of the UK, have not managed the vaccine rollout as effectively as the US, inhibiting economic recoveries. Europe is likely to benefit far more from a potential recovery in activity as vaccines are distributed, economies re-open, and monetary/fiscal policy support remain in place. Valuations are at long-term averages, but remain favorable relative to the US. Continued weakness in the US dollar might act as a tailwind for US investors – *view unchanged.*
EM Equity ●	EM equities provide a compelling barbell; value-oriented economies like Russia, Brazil, and Mexico, paired with China, which can be characterized as a growth market given the dominance of consumer-facing companies like Alibaba and Tencent. We note though that Chinese equities might lag emerging market counterparts, given the structural momentum/growth orientation of the Chinese equity market today. We maintain our view that, as risk sentiment improves, EM economies that have been hit hard by the pandemic should benefit from capital inflows. Continued weakness in the US dollar would benefit these harder-hit, capital starved economies – *view unchanged.*
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. Gradual capacity take-up as the vaccine roll-out continues and attractive yields remain supportive, but the latter has diminished with recent increases in rates – *view unchanged.*
Public Natural Resources ●	As the COVID-19 pandemic recedes, natural resources represent a potentially appealing asset class. However, they compound equity risk (we are long already), leading us to favor commodities futures – *view unchanged.*
Commodities Futures ●	We maintain our positive view of commodities futures as a play on a recovery in economic activity, given that 1) the COVID-19 pandemic continues to recede, 2) the global economic output gap continues to shrink, and 3) they offer a positive roll yield – *view unchanged.*

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