MEKETA
INVESTMENT GROUP

GLOBAL MACROECONOMIC INVESTMENT COMMITTEE

Near-term Market Assessment April 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

The distribution of vaccines has accelerated in some countries along with the corresponding reopening of the economy, while other countries like India and Brazil continue to struggle with containing the virus. In March, the new US administration released its infrastructure spending proposal, which was generally well received by equity markets. Plans for additional fiscal spending along with improving economic data further fanned the fears of increased inflationary pressures causing yields on US Treasuries to continue their ascent. Developed equity markets rose given reopening optimism and on-going policy support with the rotation out of growth / tech stocks into value / recovery stocks persisting. Emerging market equities were, however, hampered by US dollar appreciation during the month along with some countries struggling to control the spread of the virus.

Overall, we remain positive on equity market risk, but recognize as markets continue to rise downside risk increases. The conditions that were in place to begin the year are holding steady. Recent policy announcements in the US are supportive, vaccine deployment is trending positively, and economic data remains resilient. Momentum in equities continues to be positive, as well. No particular areas of fixed income appear attractive. Our view on high yield remains negative as credit spreads have tightened even further. We have softened our view on commodities from positive to neutral, as commodity futures have rallied significantly, and inflation expectations priced in by the market may be overdone.

High Level Views

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

Asset Class Views

	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 and inflationary pressures building in the economy, we remain negative on cash and view it as a funding source for more attractive investments - *view unchanged.*
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 – *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 Treasury yields, 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 making emerging markets debt less appealing. We continue to lean towards emerging markets equities, which continue to be more appealing from a risk/return perspective – *view unchanged*.
High Yield Bonds ●	The income pickup from high yield fixed income over core bonds is attractive, but spreads have tightened even further despite credit growth accelerating, reducing the appeal of high yield debt relative to equities – *view unchanged.*
Within Equities	
US Equity ●	With monetary/fiscal policy remaining supportive, economic data improving, and a pathway out of the COVID-19 pandemic in place, equities remain attractive. With a rotation from growth to value underway, and valuations stretched in certain COVID-19 "winners", any number of surprises related to the pandemic or the economy could cause a rapid reversal of style factors. Small cap stocks have outperformed large caps by a wide margin recently, but investors should be cautious in extrapolating this result forward after such an abrupt move – *view unchanged.*
EAFE Equity ●	Key EAFE markets in Europe, outside of the UK, have not managed the vaccine rollout as effectively as we have in the US, inhibiting their economic recoveries. Revived US dollar strength after a period of weakness might act as a headwind for US investors going forward – *our view changed from positive to neutral.*
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. A return to weakness in the US dollar would also 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, natural resource equities compound equity risk (we are long already) – *view unchanged.*
Commodities Futures ●	We have moved to a neutral view on commodities due to the recent run-up in futures, coupled with a rapid acceleration in inflation expectations that leaves prices extended relative to historical norms – *view changed from positive to neutral.*

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