

GLOBAL MACROECONOMIC INVESTMENT COMMITTEE

Near-term Market Assessment

May 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, notably India and Brazil, continue to struggle with containing the virus. In April, yields on US Treasuries retreated as the Federal Reserve remained clear in its conviction to keep policy supportive despite inflationary concerns. US equities rallied to fresh highs on the back of better than expected earnings reports, improving economic data, and reopening optimism. The rotation out of growth / tech stocks into value / recovery stocks slowed as major tech companies reported stellar earnings. Developed and emerging market equities both benefitted from the US dollar weakening but they appreciated less than US equities for the month. Among emerging economies, China's early recovery and tech heavy focus, as well as rising COVID-19 cases in some areas, weighed on relative returns, while on-going logistical issues with the vaccine roll-out in developed economies contributed to lower returns there.

Overall, we softened our bullish view on equities to neutral as valuations in the US continue to soar, with downside risk increasing. We note though that policy support, vaccine deployment, economic data, and momentum remain supportive in the US. Concerns over issues facing the Chinese equity market weighing down emerging markets, as well as struggles with containing COVID-19 in other countries, dampened our view of emerging markets equities. We view developed market equities favorably, given the progress made in containing the virus and the cyclical sector focus. No segments of fixed income are attractive. We maintain our negative view on high yield as credit spreads have remained extremely tight, and on cash given low rates and inflation concerns. We updated our view on commodities from neutral to positive in anticipation of supply/demand issues persisting.

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

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 maintain our negative view on cash and view it as a funding source for more attractive investments – <i>view unchanged</i> .
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 – <i>view unchanged</i> .
TIPS ●	Break-evens continue their rise above long-term averages as inflationary concerns grow. The strong recent gains in TIPS and robust inflation expectations make inflation-linked bonds less attractive going forward – <i>view unchanged</i> .
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 – <i>view unchanged</i> .

Within Credit

EM Debt Local ●	Yields remain attractive relative to developed market credit, but a search for yield has caused spreads to continue to compress making emerging markets debt less appealing going forward – <i>view unchanged</i> .
High Yield Bonds ●	The income pickup from high yield fixed income over core bonds remains, but spreads have tightened even further despite credit growth accelerating, further reducing the appeal of high yield debt's risk return profile – <i>view unchanged</i> .

Within Equities

US Equity ●	With monetary/fiscal policy remaining supportive, economic data improving, and a pathway out of the COVID-19 pandemic in place, US equities could continue to do well. However, as the market makes fresh highs after a strong run with valuations becoming further stretched, we have become more cautious going forward. Any number of surprises related to the pandemic or the economy could cause a rapid retreat from market highs with inflationary risks and a potential change in monetary policy top concerns – <i>view changed from positive to neutral</i> .
EAFE Equity ●	Key EAFE markets in Europe, outside of the UK, have not managed the vaccine rollout as effectively as US, inhibiting their economic recoveries. However, recent progress in the vaccine rollout, a lower technology sector focus, and attractive valuations compared to the US makes EAFE equities relatively attractive. US dollar weakness, should it persist, would act as a tailwind for US investors going forward – <i>view changed from neutral to positive</i> .
EM Equity ●	Although EM equities provide a compelling barbell of value and growth oriented economies and many countries could benefit from improving risk sentiment, we note that continuing challenges in the Chinese equity market are likely to weigh down emerging markets given that it accounts for roughly 40% of the index. Due to the structural momentum/growth orientation of the Chinese equity market today, and dual headwinds of increasing regulation of the tech sector in China and rising yields, Chinese equities might lag emerging markets counterparts. Beyond China, other major EM economies – most notably India and Brazil at present – continue to struggle to contain the virus, hampering their recoveries – <i>view changed from positive to neutral</i> .

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 – <i>view unchanged</i> .
Public Natural Resources ●	As the COVID-19 pandemic recedes, natural resources represent a potentially appealing asset class. However, natural resource equities have had a strong run recently making them less attractive in the short-term – <i>view unchanged</i> .
Commodities Futures ●	We have recently seen spikes in a variety of commodities like lumber, iron, corn, and copper from increased demand as economies reopen and various supply issues. Despite the strong run in commodities so far this year, we see it as an attractive asset class in the short-term, as the supply issues will take time to resolve and demand remains strong – <i>view changed from neutral to positive</i> .

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