MEKETA
INVESTMENT GROUP

GLOBAL MACROECONOMIC INVESTMENT COMMITTEE

Near-term Market Assessment July 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 different ways to inform near-term portfolio construction.

Current Market Conditions

In June, pressure on the "reflation" trade was a key theme with growth outpacing value, yields continuing to decline, and inflation expectations falling. The Fed's emphasis that they think inflation will be transitory, growth being pulled forward due to a successful vaccination campaign in the US, and growing fears about the Delta variant of COVID-19 all likely contributed to the shift. US equities rose for the month adding to their strong 2021 results, while developed and emerging market equities lagged given continued struggles to contain the virus and a stronger US dollar.

Overall, we remain cautiously optimistic on US equities with further gains possible due to high cash balances on corporate balance sheets that could be supportive of share buybacks, continued policy support, and a relatively successful vaccination program. Concerns related to the new Delta variant and the strong recent run balance the positives and lead to our neutral view. Given the relatively early reopening of the economy in China, and strong equity market results last year, we expect weaker results going forward. This could weigh on emerging markets equity returns given the Chinese equity market's dominance of the index. Beyond China, struggles with containing COVID-19 in other countries also dampen our view of emerging markets equities. We view developed markets equities favorably, given some progress made in containing the virus and the cyclical sector focus. No particular areas of fixed income remain attractive. We maintain our negative view on cash given low rates and inflation concerns. Although credit spreads remain extremely tight, we moved to neutral from negative on high yield bonds recognizing that issuers generally continue to maintain strong balance sheets in an economic recovery. We also moved to a neutral view on commodities from positive due to the recent strong run and the potential impact on demand if economic conditions related to the virus deteriorate.

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 with inflationary pressures in the economy, we maintain our negative view on cash and view it as a funding source for more attractive investments - *view unchanged.*
Long-Term Gov't Bonds ●	Recently, long-term rates declined as inflation concerns have moderated. While long-term government bonds still offer a yield pick-up over cash, the benefit of that higher yield is diminished by the potential for a return to yield curve steepening as economic growth remains strong, additional fiscal measures are implemented, and inflationary pressures remain – *view unchanged.*
TIPS ●	Despite break-even's recent decline they remain above long-term averages as inflationary concerns persist. The strong recent gains in TIPS and still robust inflation expectations make inflation-linked bonds less attractive 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 remaining tight despite the recent decline in Treasury yields, corporate bonds are priced for perfection, especially considering that debt expanded, rather than contracted, in 2020. The Fed has also begun unloading corporate bonds it purchased in the initial response to the COVID crisis – *view unchanged.*
Within Credit	
EM Debt Local ●	Yields remain attractive relative to developed market credit, but a search for yield has caused spreads to remain well below long-term averages making emerging markets debt less appealing going forward. Continued strength in the US dollar could also weigh on the sector – *view unchanged*.
High Yield Bonds ●	Despite very tight spreads amid credit growth accelerating, issuers are in better 'health' in a growing/ recovering economy, and the proliferation of covenant-light debt allows for more flexibility rather than forced technical defaults should issuers fail to meet debt obligations – *view changed from negative to neutral.*
Within Equities	
US Equity ●	With monetary/fiscal policy remaining supportive, economic data improving, significant progress made with the COVID-19 pandemic, and cash-heavy corporate balance sheets that could potentially be used for share buybacks, US equities could continue to do well. However, given rising concerns about the Delta variant, stretched valuations, inflationary risks, and a potential change in monetary policy, we remain cautious going forward – *view unchanged.*
EAFE Equity ●	Key EAFE markets in Europe, outside of the UK, have not managed the vaccine rollout as effectively as in the 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 strength, should it persist, would act as a headwind for US investors going forward – *view unchanged.*
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 in general given that it accounts for roughly 40% of the index. Given 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 market counterparts. Beyond China, other major EM economies – most notably India and Brazil at present - continue to struggle to contain the virus, hampering their recoveries – *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, particularly given the recent decline in rates, remain supportive – *view unchanged.*
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 – *view unchanged.*
Commodities Futures ●	Early in 2021 we saw price spikes in a variety of commodities like lumber, iron, corn, and copper from increased demand as economies reopened and given supply issues. While supply issues will likely take additional time to resolve, we have recently seen a pullback in some commodities after the strong run to start the year. Demand for the rest of 2021 remains uncertain with the emergence of the Delta variant - *view changed from positive to neutral.*

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