MEKETA

INVESTMENT GROUP

Economic and Market Update

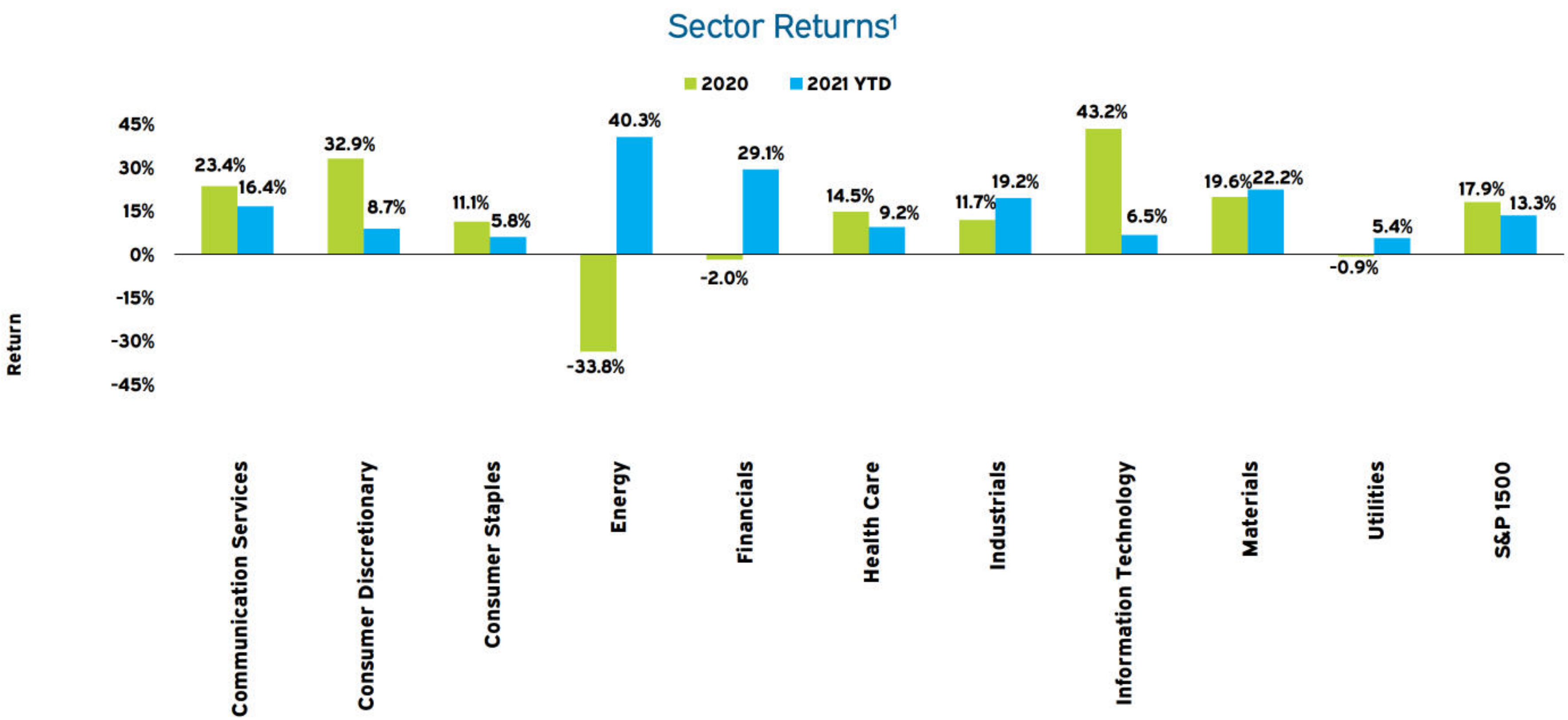
Data as of May 31, 2021

Market Returns[1]

Indices	May	YTD	1 Year	3 Year	5 Year	10 Year
S&P 500	0.7%	12.6%	40.3%	18.0%	17.2%	14.4%
MSCI EAFE	3.3%	10.1%	38.4%	8.2%	9.8%	5.9%
MSCI Emerging Markets	2.3%	7.3%	51.0%	9.7%	13.9%	4.1%
MSCI China	0.8%	1.7%	38.7%	8.4%	16.8%	7.3%
Bloomberg Barclays Aggregate	0.3%	-2.3%	-0.4%	5.1%	3.3%	3.3%
Bloomberg Barclays TIPS	1.2%	1.1%	7.1%	6.5%	4.5%	3.4%
Bloomberg Barclays High Yield	0.3%	2.3%	15.0%	7.1%	7.4%	6.4%
10-year US Treasury	0.6%	-5.4%	-7.1%	5.4%	2.2%	3.5%
30-year US Treasury	0.7%	-13.0%	-17.4%	6.7%	3.4%	6.3%

- So far this year, global risk assets continue to rise, leading to significant gains over the trailing year. This has largely been driven by record fiscal and monetary policy stimulus and positive developments with the COVID-19 vaccine. US Treasuries have not fared as well, given the rise in interest rates driven by inflationary fears.
- In May, Treasury yields declined as the Federal Reserve maintained its position that inflation will be transitory. TIPS moved into positive territory for the year, helped by fears of rising prices.
- Equity markets rose in May with international markets leading the way, partly driven by a weakening US dollar.

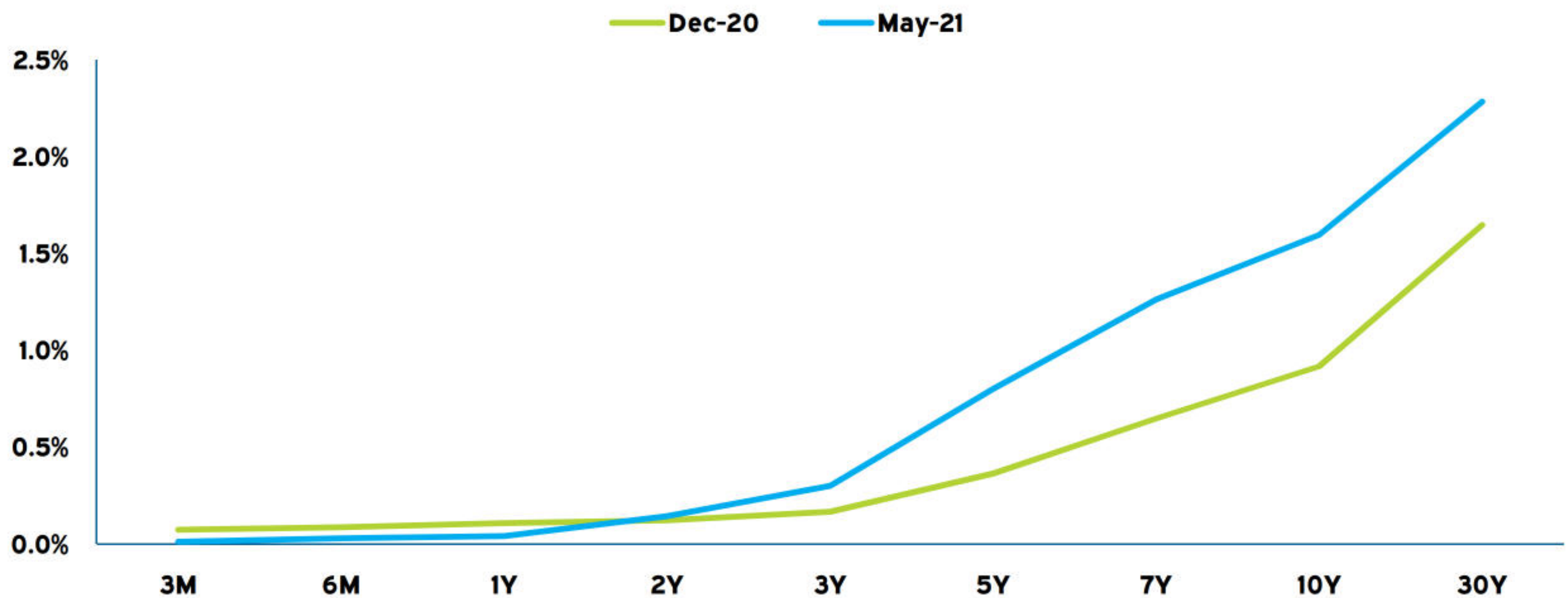
[1] Source: Investment Metrics and Bloomberg. Data is as of May 31, 2021.



- Cyclical sectors like energy and financials continue to lead the way in 2021, as some investors rotate out of stay-at-home focused companies in the technology sector.
- The rotation into value stocks has largely been driven by expectations for the economy to reopen, potentially higher taxes, and rising interest rates. Growth stocks typically produce more of their cash flows further into the future and increased interest rates lead to larger discounts, reducing present values.

[1] Source: Bloomberg. Data is as of May 31, 2021.

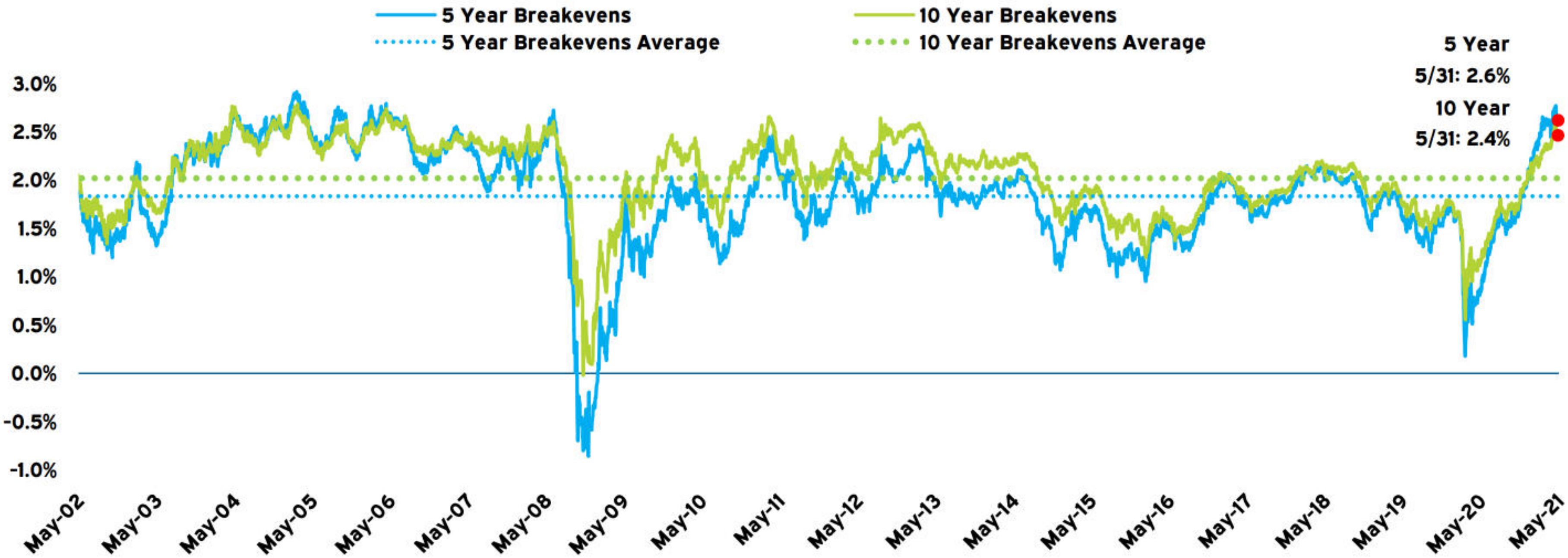
US Yield Curve Steepens[1]



- Thus far in 2021, the yield curve steepened on inflation fears related to gradual signs of economic improvement and developments with the vaccine.
- Shorter-dated rates have largely not moved given Fed policy, while longer-dated rates may continue to steepen if growth and inflation pressures build beyond current expectations.
- Alternatively, the yield curve could decline if the economy starts to weaken or if economic progress is simply accelerated versus the prior expectations.

[1] Source: Bloomberg. Data is as of May 31, 2021.

Breakeven Inflation[1]

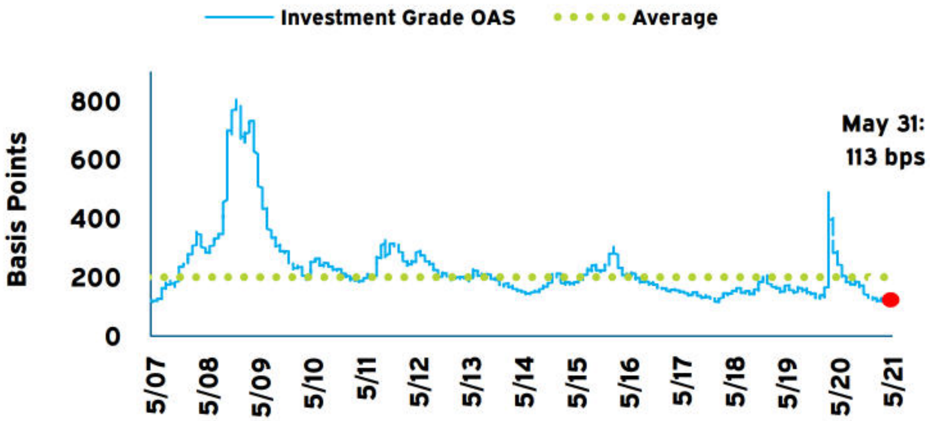


- Inflation expectations remain well above long-term averages, with the vaccine roll-out, rising raw material prices, and expected additional fiscal stimulus as key drivers.
- Looking forward, the track of economic growth and the inflationary effects of the unprecedented US fiscal response will be key issues. Additionally, changes to Fed policy focused on an average inflation target may play a role in the inflation market dynamics.

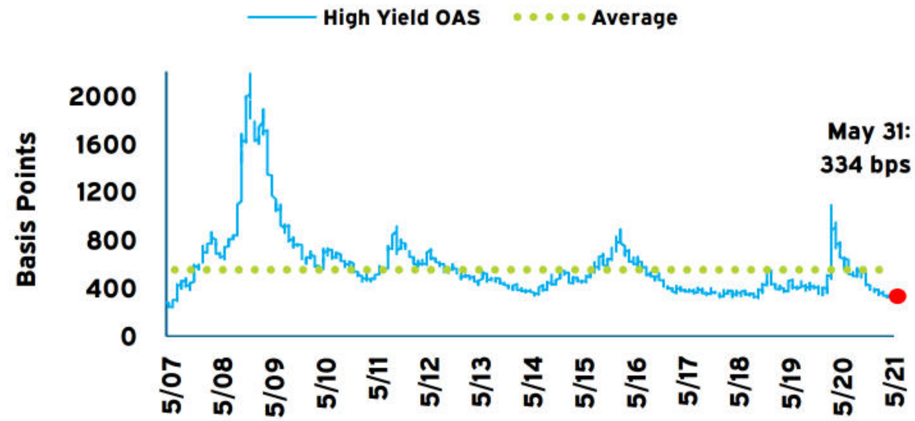
[1] Source: Bloomberg. Data is as of May 31, 2021.

Credit Spreads (High Yield & Investment Grade)[1]

Investment Grade OAS



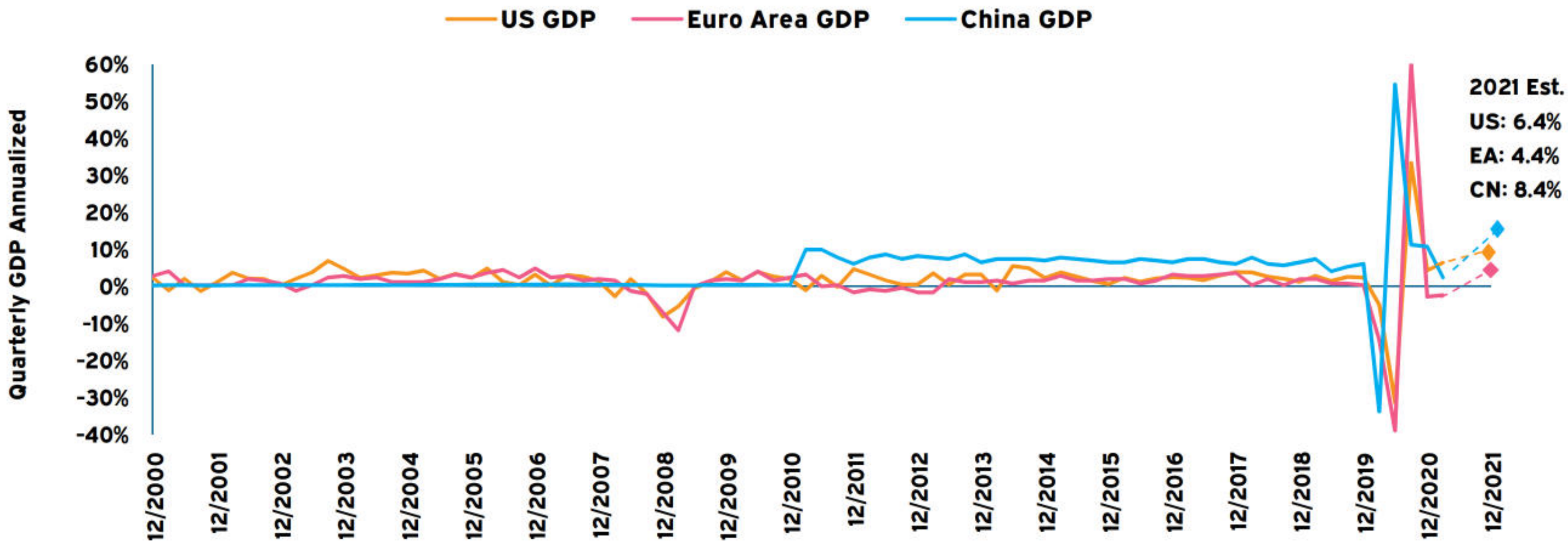
High Yield OAS



- Credit spreads (the spread above a comparable maturity Treasury) for investment-grade and high yield corporate debt widened sharply at the start of the pandemic as investors sought safety.
- Policy support and the search for yield in a low rate environment led to a decline in credit spreads to below long-term averages, particularly for high yield.

[1] Source: FRED Economic Data. Investment grade represents ICE BofA BBB US Corporate Index OAS. High Yield represents ICE BofA US High Yield Index OAS. Data is as of May 31, 2021.

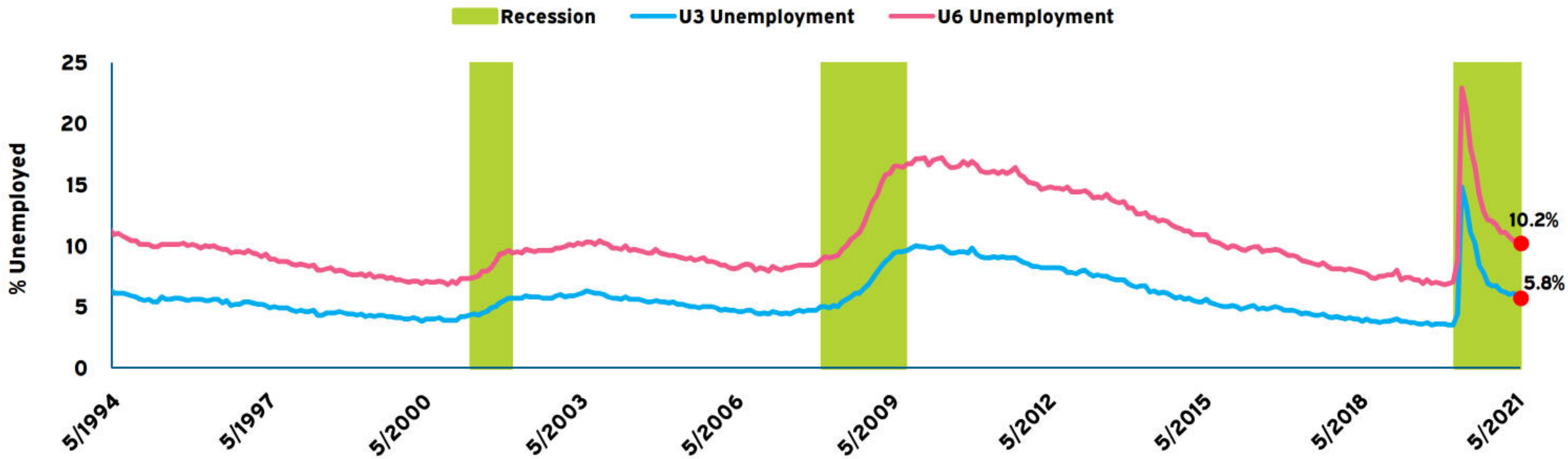
GDP Data Shows Projected Improvements in 2021[1]



- Major economies experienced historic declines in growth during the second quarter of 2020, followed by record increases in the third quarter driven by pent-up demand from the lockdown measures earlier in the year.
- Looking forward, strong growth is expected in 2021 particularly for China, projected to grow at an impressive 8.4%, due in part to their ability to quickly control the virus and reopen their economy. The US is expected to grow faster than the euro area this year, helped by vaccine distribution.

[1] Source: Bloomberg, and IMF; Euro Area and China figures annualized by Meketa. Projections via April 2021 IMF World Economic Outlook and represent annual numbers.

US Unemployment[1]



- In May, the unemployment rate (U3) declined after rising slightly in April. It dropped from 6.1% to 5.8%.
- The broader measure of unemployment (U6) that includes discouraged and underemployed workers continues to decline but remains much higher at 10.2%.
- Pandemic related concerns, childcare issues, and a mismatch of skills and available jobs have all contributed to slack in the labor market.

[1] Source: Bloomberg. Data is as of May 31, 2021. Bars represent recessions as observed by the National Bureau of Economic Research.

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