MEKETA
INVESTMENT GROUP

Economic and Market Update

Data as of August 31, 2021

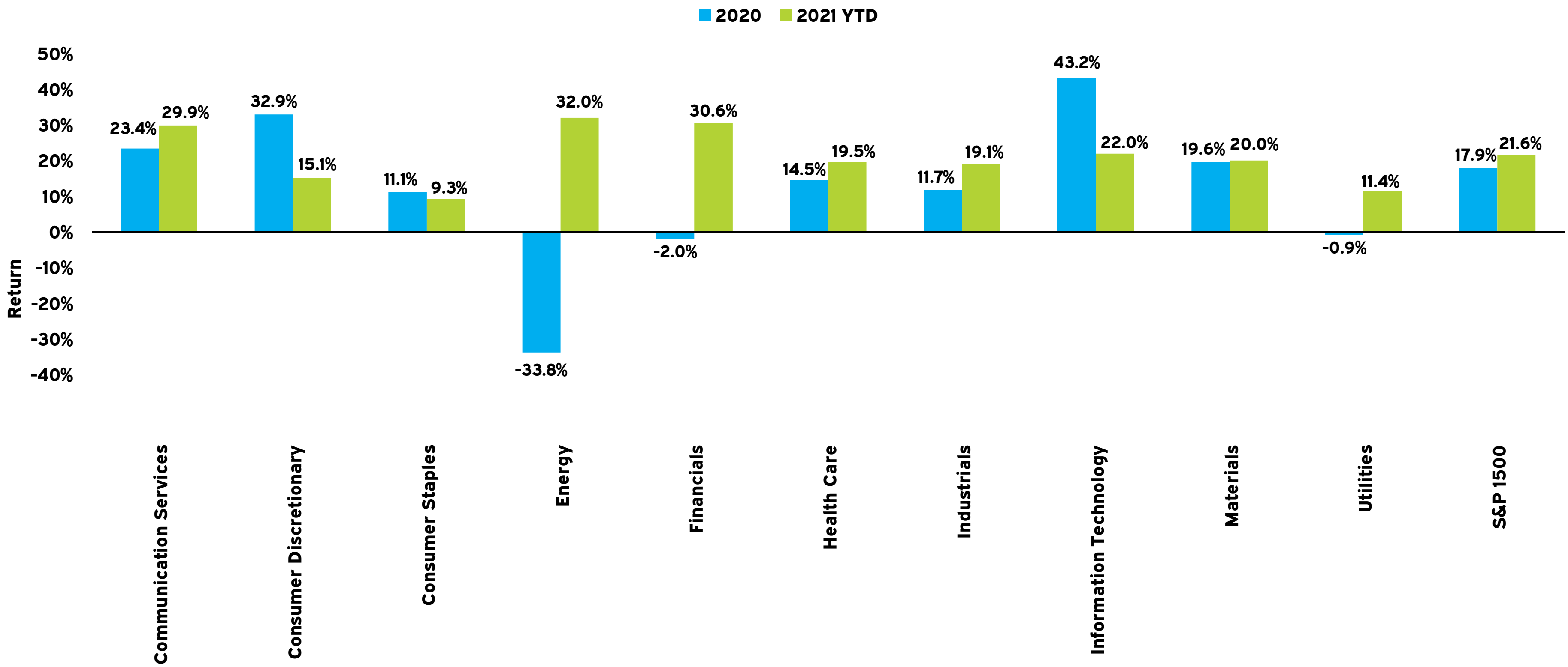
Market Returns[1]

Indices	August	YTD	1 Year	3 Year	5 Year	10 Year
S&P 500	3.0%	21.6%	31.2%	18.1%	18.0%	16.3%
MSCI EAFE	1.8%	11.6%	26.1%	9.0%	9.7%	7.3%
MSCI Emerging Markets	2.6%	2.8%	21.1%	9.9%	10.4%	4.9%
MSCI China	0.0%	-12.3%	-5.1%	7.3%	10.8%	7.3%
Bloomberg Barclays Aggregate	-0.2%	-0.7%	-0.1%	5.4%	3.1%	3.2%
Bloomberg Barclays TIPS	-0.2%	4.3%	5.6%	7.3%	4.6%	3.2%
Bloomberg Barclays High Yield	0.5%	4.6%	10.1%	7.1%	6.7%	7.1%
10-year US Treasury	-0.4%	-2.5%	-4.1%	6.3%	2.2%	3.0%
30-year US Treasury	-0.3%	-5.8%	-9.6%	9.4%	3.2%	5.8%

- Equity markets had strong results in August with the US extending its year-to-date outperformance. So far in 2021, struggles with the vaccine rollout have hurt the relative performance of international equity markets, with China's crackdown on technology companies further weighing on emerging markets.
- In August, Treasuries pulled back after a rally as growth expectations picked-up slightly.

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

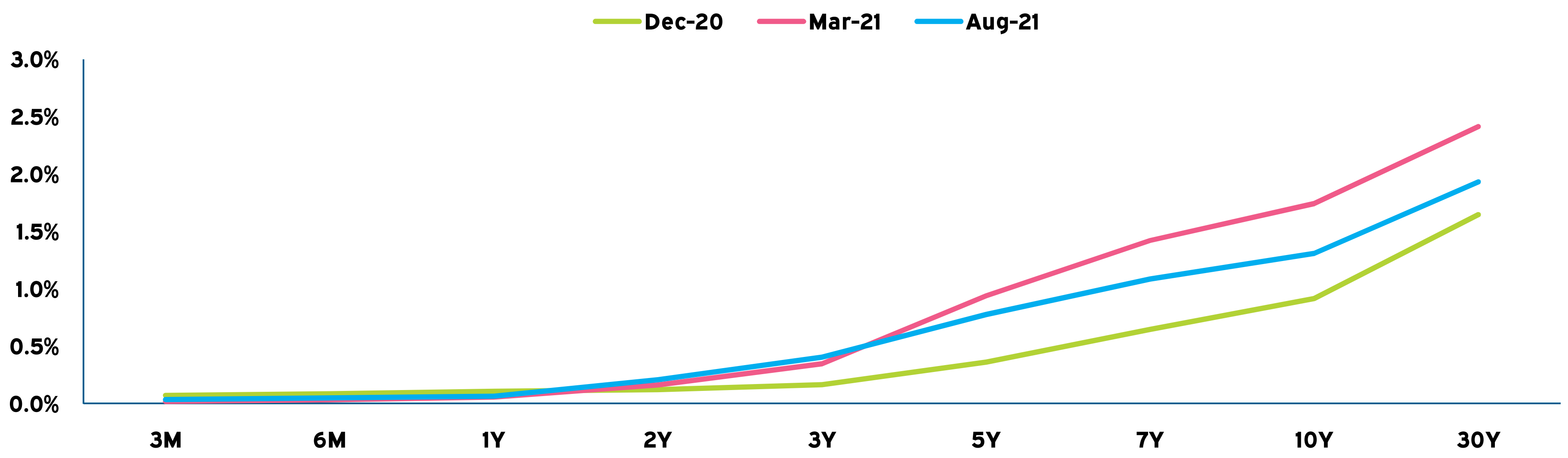
Sector Returns[1]



- Cyclical sectors like energy and financials continue to lead the way in 2021 with strong returns, followed closely by communication services.

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

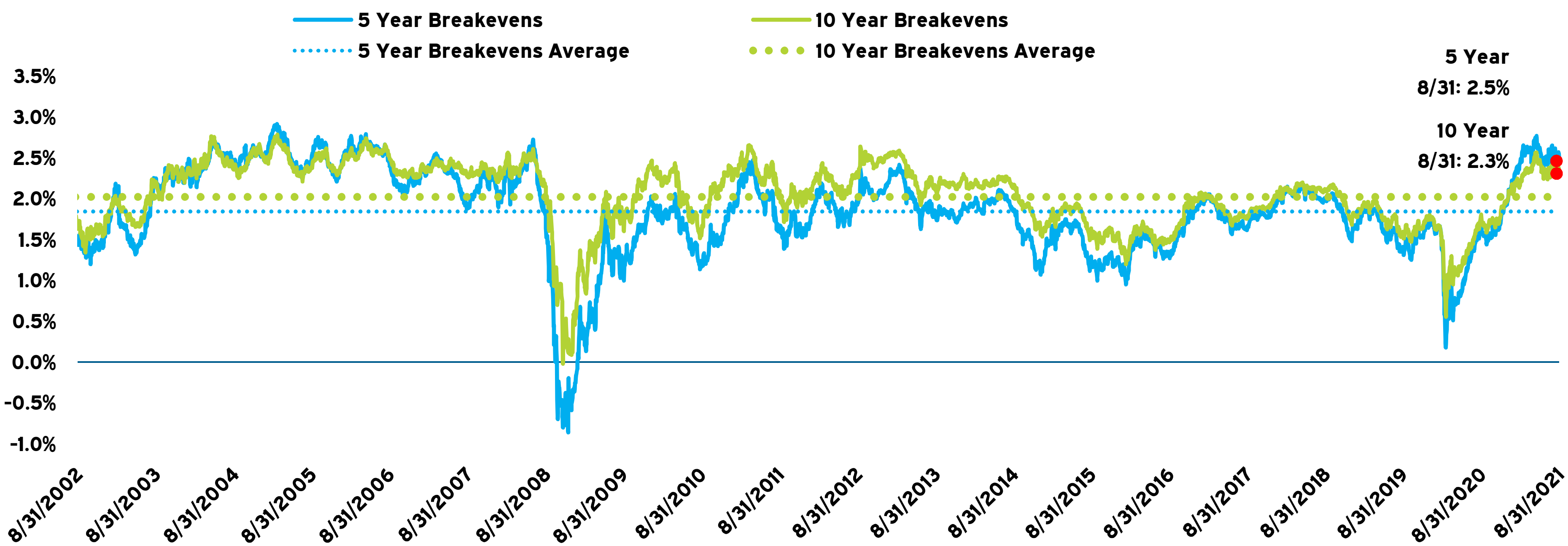
US Yield Curve Begins to Flatten After Sharp Steepening to Start 2021[1]



- During the first half of 2021, the yield curve steepened, on higher growth expectations related to gradual signs of economic improvement given the vaccine rollout.
- Shorter-dated rates were largely unchanged due to Fed policy. Longer-dated rates rose slightly in August though given a modest improvement in growth expectations, but they remain below their recent peak in March 2021.
- The yield curve could resume its steepening if growth and inflation pressures build beyond current expectations. Alternatively, if the economy weakens, or if economic progress is simply accelerated versus prior expectations, a flattening trend could continue.

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

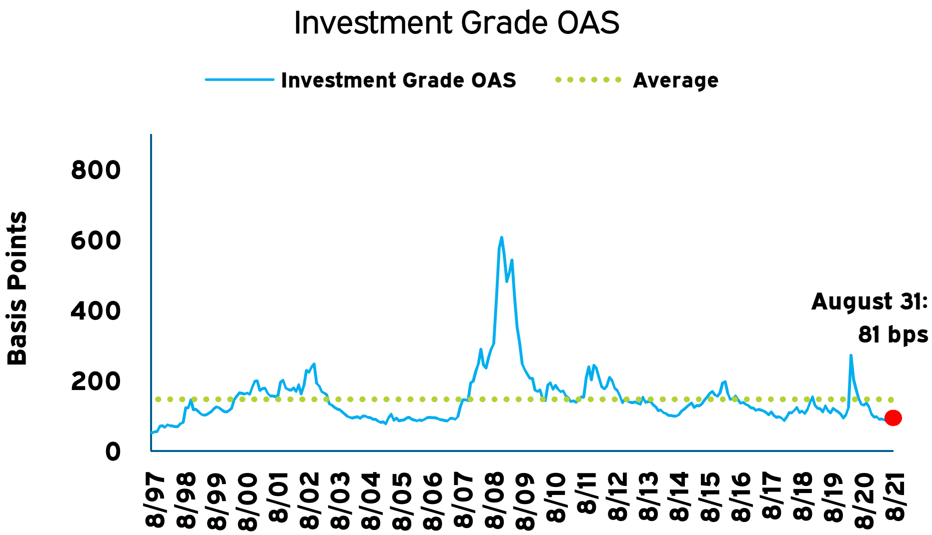
Breakeven Inflation[1]

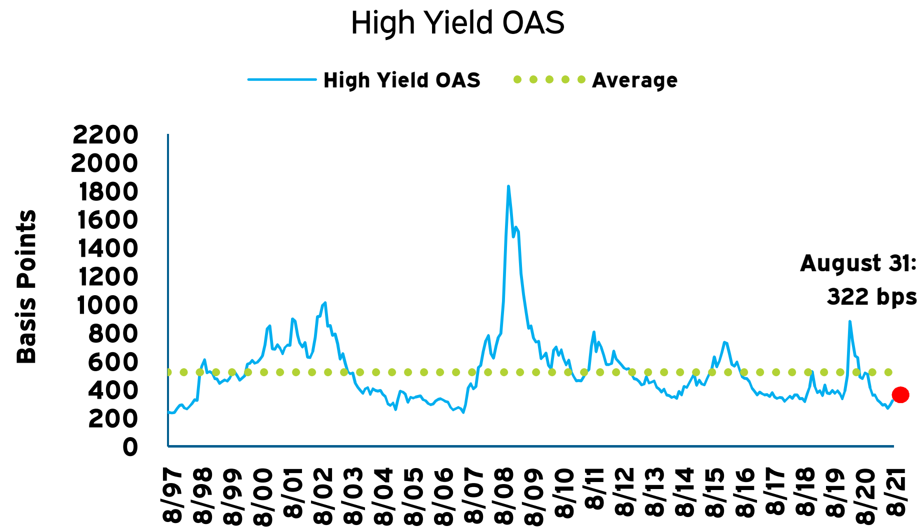


- Inflation expectations remain well above long-term averages, particularly in the short-term, with the vaccine roll-out, still relatively high raw material prices, and expected additional fiscal stimulus as key drivers.
- Recently though, inflation expectations declined from their peaks as base effects wane, growth forecasts moderate, and cost pressures slow.
- Looking ahead, 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 August 31, 2021.

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

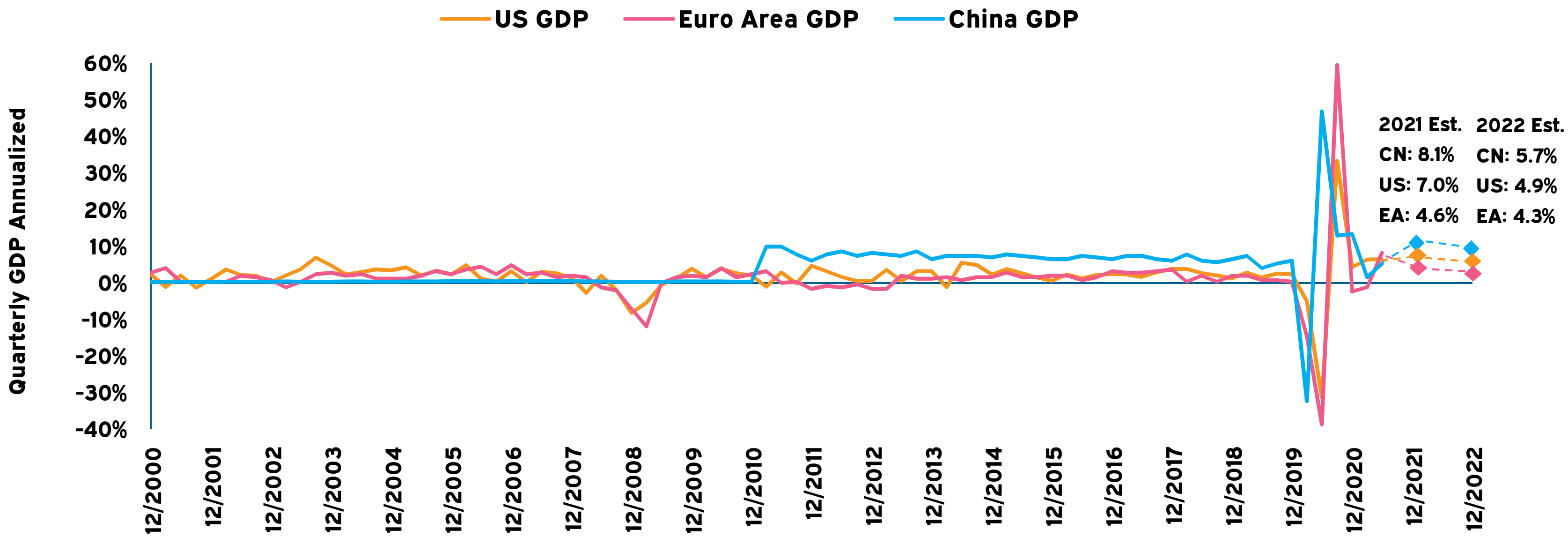




- Credit spreads (the spread above a comparable maturity Treasury) for investment-grade and high yield corporate debt remain at historically low levels in spite of elevated inflation expectations.
- Policy support and the search for yield in a low-rate environment have been key drivers in the decline in US credit spreads to below long-term averages, particularly for high yield issuers.

[1] Source: Barclays Live. Data represents OAS and is as of August 31, 2021.

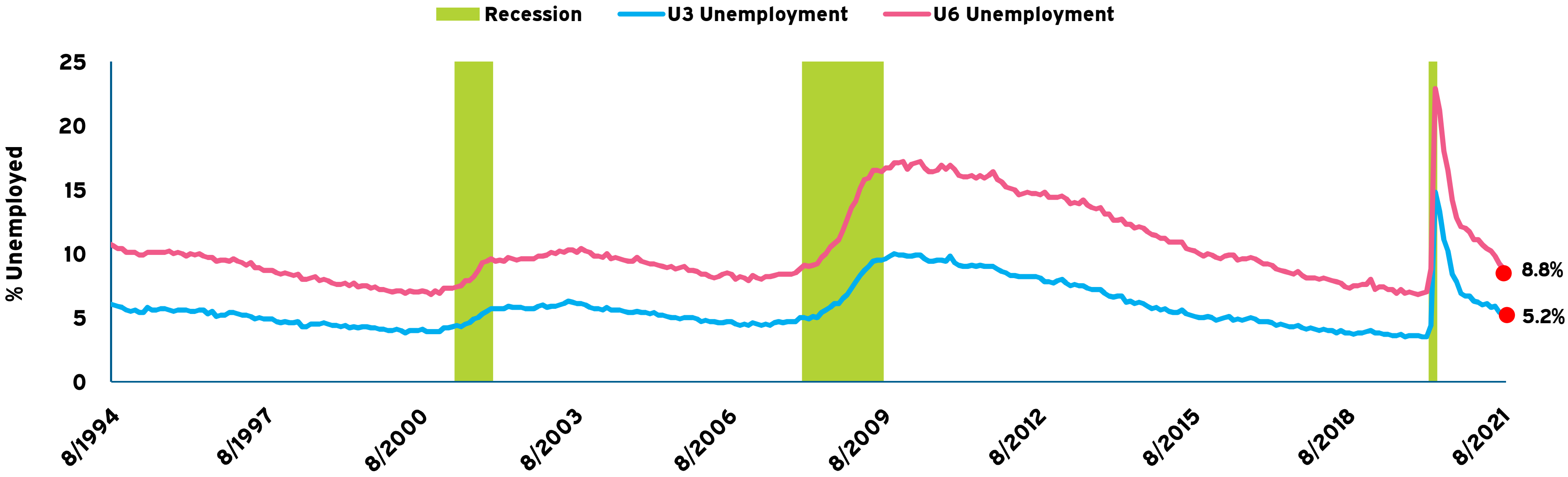
GDP Data Shows Projected Improvements in 2021[1]



- In late 2020 and early 2021, major economies grew at rates far above potential. These very high rates of growth are not expected to continue, though, as reopening trends moderate and demand normalizes.
- The US is expected to grow faster than the euro area this year and next, with some growth pulled forward due to the relative success in distributing the vaccine and a substantially larger fiscal stimulus response to the pandemic.
- China is projected to grow at an impressive 8.1% in 2021 and 5.7% in 2022 both above the expected US growth rate.

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

US Unemployment[1]



- The unemployment rate (U3) fell in August from 5.4% to 5.2% and remains above pre-pandemic levels, but far below the pandemic peak.
- The broader measure of unemployment (U6) that includes discouraged and underemployed workers continues to decline but remains much higher at 8.8%.
- Pandemic related concerns, childcare issues, and a mismatch of skills and available jobs have contributed to the continued slack in the labor market. The track of the unemployment rate from here will be a key consideration in the Federal Reserve's pace of reducing its policy support.

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

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