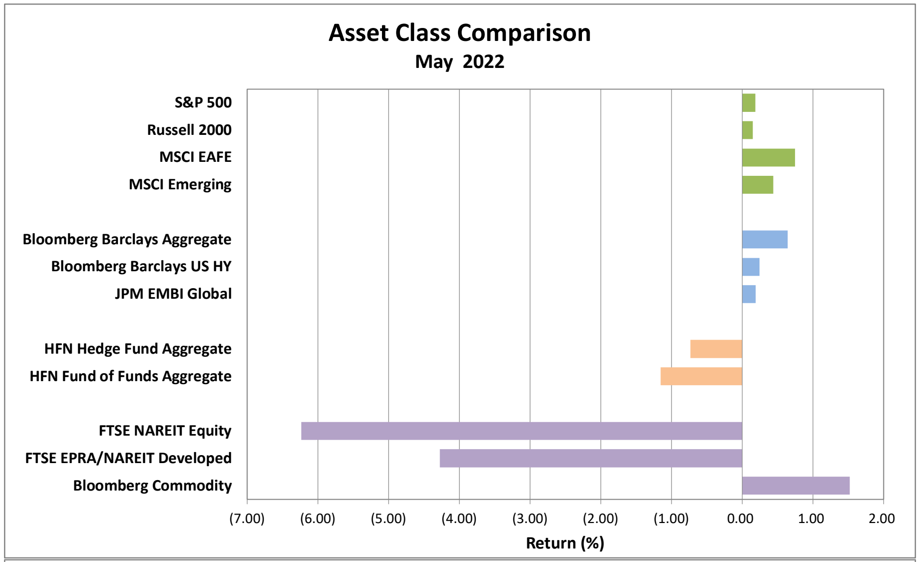
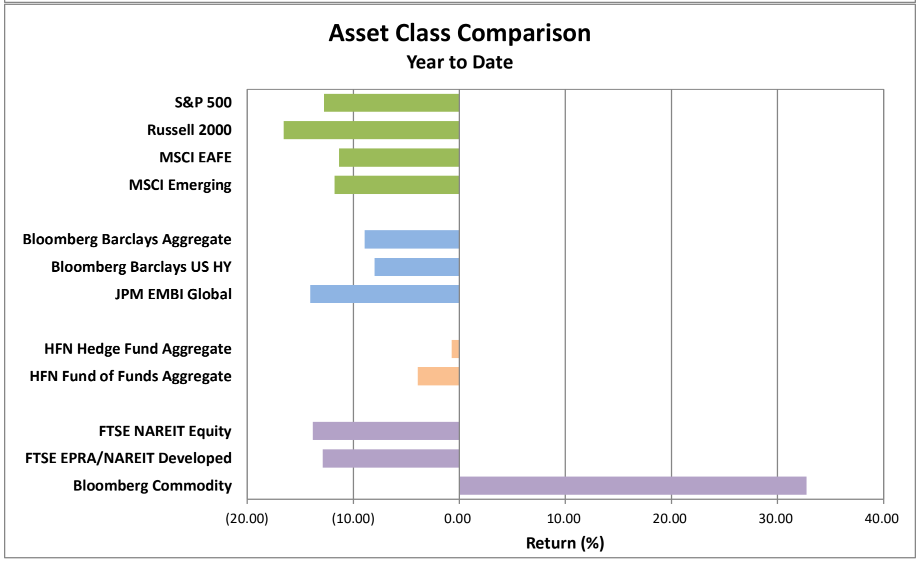
MESA: Monthly Market Flash

May 2022





Market Overview

- Global markets were mixed in May after a dismal start to the year. Global equities were up only fractionally amid concerns over inflation and global economic slowing including an increase in the probability of a recession. The Federal Reserve Board increased the Federal Funds target rate by 50 bps to a range of 0.75%-1.0%. The Chair cited that they would continue to focus on bringing down inflation and were seeking to get the target rate to neutral, approximating 2-3%, this year. While the economy and labor markets are still strong, there were some troubling signs which worried investors including an increase in the core CPI services component suggesting inflation was becoming more entrenched. The Fed also indicated that they would continue to reduce the size of the balance sheet by winding down mortgage reinvestment at a faster pace. Residential mortgage rates increased significantly which is beginning to show up in lower application activity as well as new home sales which declined 17% in April from the prior month.

- U.S. equities were negatively impacted by some corporate earnings surprises from large retailers like Target and Walmart as well as the decline in University of Michigan measures of consumer sentiment. U.S. equities underperformed other regions, partly due to U.S. Dollar weakness. The Bank of England raised rates by 25 bps to 1.0% while the ECB signaled that they too would raise rates by the end of the 3rd quarter. Elsewhere, China's markets were higher on an easing of COVID lockdowns and the announcement of measures to support growth.

- In other markets, hedge funds were down on the month on equity and bond market volatility. Public real estate securities were the laggard on concerns over increasing interest rates and possible recession amid high valuations. Commodity markets were mixed and driven higher by natural gas and oil which were both up about 10% while other commodities were generally lower including industrial and precious metals. Agriculture was mostly lower with wheat prices the exception, up another 4%.

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Equity Markets

The S&P 500 Index was up 0.2% in May after briefly hitting bear market territory during the month. Corporate earnings were mixed with a few notable surprises and forward guidance that kept investors guessing as to the direction of the economy and business cycle. Against this backdrop, the best performing sectors were energy (+15.8%), utilities (+4.3%) and financials (+2.7%) while laggards included real estate (-5.0%), consumer discretionary (-4.9%) and consumer staples (-4.6%). Value stocks beat growth stocks by about 400 bps. In European markets, Germany, Italy and the U.K. were higher while France was lower on the month. Japan was higher as COVID restrictions were eased and monetary policy continued to be accommodative even in the face of an inflation reading which exceeded 2% in an economy that grappled with no price inflation for decades. Emerging markets were also up fractionally driven mostly by Latin America, particularly gains in Brazil.

Developed Market Returns (%)

	Month	Year to Date
S&P 500	0.18	(12.76)
Russell 2000	0.15	(16.57)
MSCI EAFE ($)	0.75	(11.34)
MSCI Europe ($)	0.75	(12.04)
MSCI UK ($)	1.72	(0.24)
MSCI Japan ($)	1.64	(13.43)
MSCI Pacific ex Japan ($)	(0.40)	(2.76)

Source: eVestment Alliance, MSCI, S&P, Russell

Emerging Market Returns (%)

	Month	Year to Date
MSCI EM ($)	0.44	(11.76)
MSCI EM Asia ($)	0.42	(12.92)
MSCI EM EMEA ($)	(4.16)	(19.97)
MSCI EM Latin America ($)	8.18	19.80

Source: eVestment Alliance, MSCI

Fixed Income Markets

Global bond markets declined in May on an increase on inflation measures and target rate increases by central banks. In the U.S., the yield curve steepened with interest rate declines in short maturities on flight-to-quality flows while long term rates increased. The yield on the 2-year Treasury declined by 16 bps to 2.56%, the yield on the 10-year declined by 9 bps to 2.85% while yields on 20-30 year maturity bonds were higher by 5 bps with the long bond yielding 3.05% at month's end. Investment grade and high yield credit outperformed Treasuries on lack of supply as corporate issuers took a wait-and-see approach amid volatility and yields began to appear compelling to buyers on a historical basis. Two fixed income areas which registered negative returns included TIPS on real yield increases and floating rate leveraged loans.

U.S. Fixed Income Returns (%)

	Month	Year to Date
Bloomberg Barclays Aggregate	0.64	(8.92)
Bloomberg Barclays Government	0.19	(8.23)
Bloomberg Barclays U.S. TIPS	(0.99)	(5.95)
Bloomberg Barclays U.S. Inv. Grade Corp	0.93	(11.92)
Bloomberg Barclays U.S. Mort. Backed	1.11	(7.29)
Bloomberg Barclays U.S. High Yield	0.25	(8.00)
Credit Suisse Leveraged Loan	(2.51)	(2.44)

Source: eVestment Alliance, Bloomberg Barclays, Credit Suisse

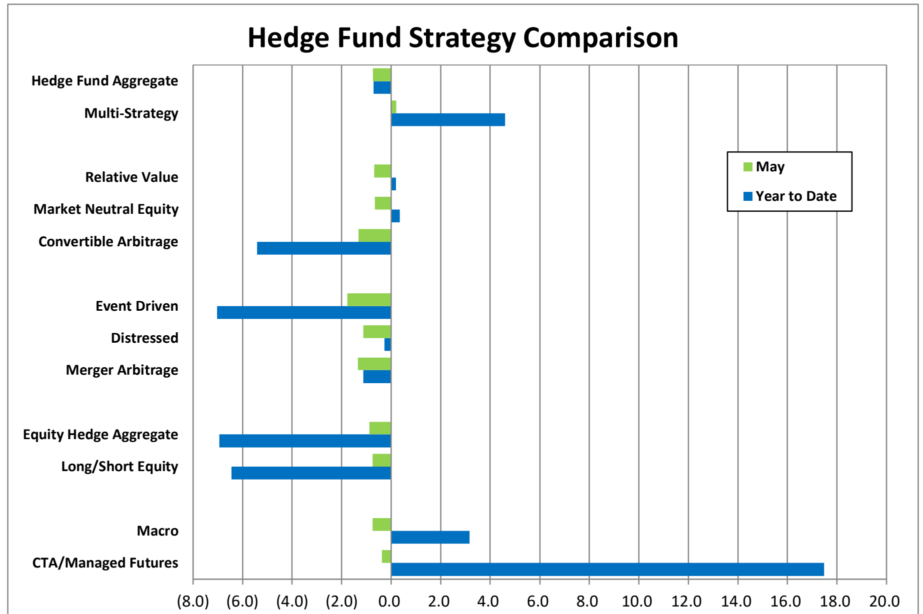
Non-U.S. Fixed Income Returns (%)

	Month	Year to Date
FTSE Non-U.S. WGBI Hedged	(1.24)	(7.87)
FTSE Non-U.S. WGBI Unhedged	(0.20)	(14.54)
JP Morgan EMBI Global	0.19	(14.07)

Source: eVestment Alliance, FTSE, JP Morgan

Alternative Strategies

Hedge funds were fractionally lower on the month with event-driven and long/short equity strategies, particularly those with a growth orientation, lagging. The fund of funds index returned -1.0% for the month.



Source: HFN Indices, eVestment Alliance