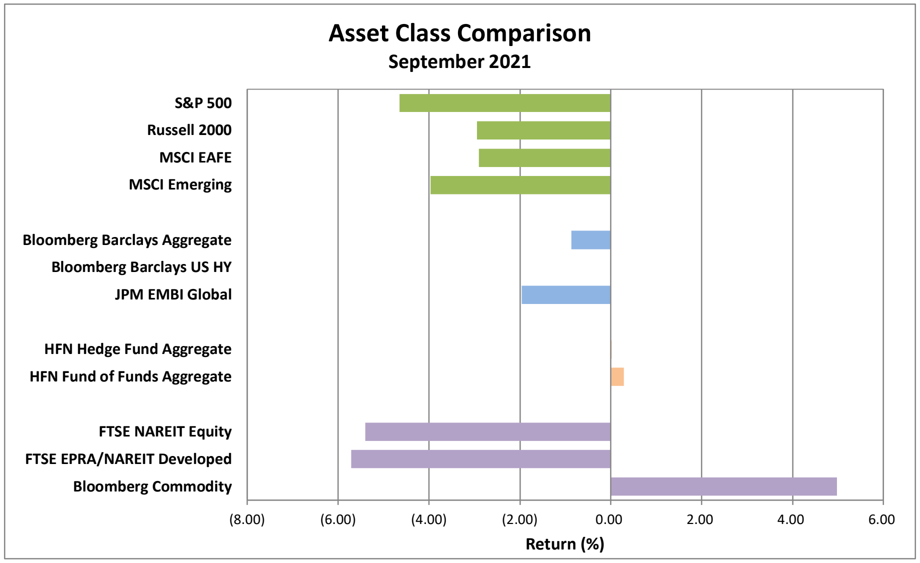
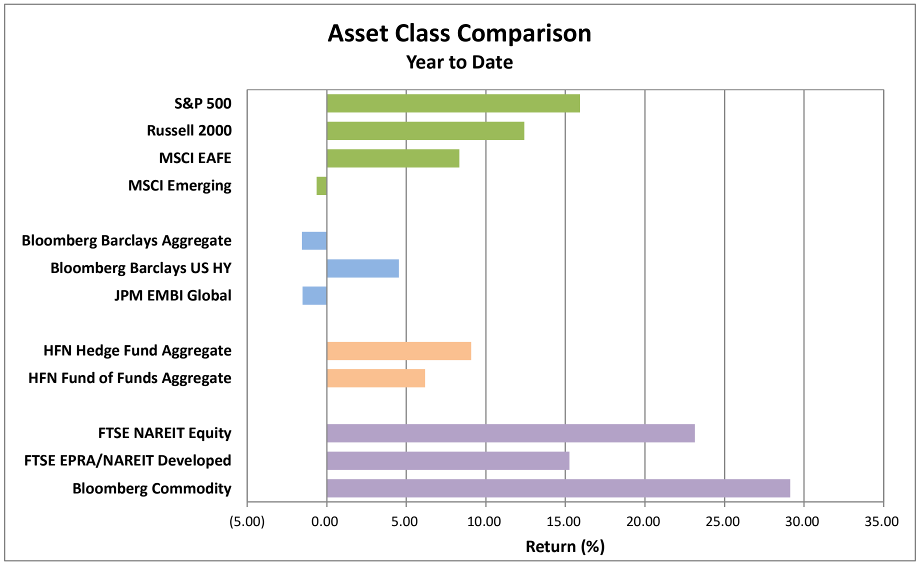
MESA: Monthly Market Flash

September 2021





Market Overview

- U.S. equity markets declined in September as concerns over inflation, the increasingly widespread view that economic growth has peaked and monetary policy signals from the Fed, which were more hawkish than expected. The release of Fed meeting minutes on the 22nd revealed that the central bank is poised to begin tapering the pace of asset purchases as soon as November given progress in employment levels and inflation. While tapering of asset purchases would be gradual the Fed indicated it was expected to be completed by mid-2022 followed by rate hikes in 2023. The most recent Fed member "dot plot" projections for the target Federal Funds rate increased from 4 rate hikes by the end of 2024 to 6.

- Elsewhere, the U.K. and European central banks each announced that they would begin the process of tapering on a rebound in growth and inflation. The announcements caused global interest rates to head higher and equity markets to sell off. The 10-Year Treasury yield increased by 23 bps to end the month at 1.53% while the 10-Year U.K. Gilt yield increased by 36 bps to 0.95%. The 10 Year German Bund yield increased by 21 bps to -0.19% while the 10-Year Japanese Government Bond (JGB) was up only 5 bps to 0.07%. The Bank of Japan said it will continue its asset purchase program at current levels and will keep rates very low. In emerging markets, China dominated headlines as a large property developer went into financial distress, there were rolling power outages in factories in some provinces as well as an increase in coronavirus cases and slowing in economic activity.

- In other markets, commodities were higher driven by a rally in oil prices with WTI crude up 10% and natural gas prices up a whopping 32.6%. Industrial metals prices were down, except for aluminum. Precious metals were lower with gold down by 3.4%. REITs were lower in September after rallying for most of the year as rates backed up. Hedge fund strategies were mixed with macro, relative value and deep value/distressed performing best.

Equity Markets

The S&P 500 Index was down 4.7% in September on a variety of factors including concerns over supply disruptions and an increase in inflation and interest rates. Against this backdrop, value stocks beat growth and small caps outperformed large caps. All industry sectors lost ground except for energy on the heels of an oil price surge. The worst relative performers were materials and industrials. In non-U.S. developed market equities, the MSCI EAFE outperformed the U.S. returning -2.9% in September. Japan was a standout outperformer on a decline in coronavirus cases, accommodative monetary policy, and new political leadership. Emerging markets were mostly lower with the index declining 4.0% in September with commodity producers such as Russia one of the few markets advancing during the month.

Fixed Income Markets

U.S. interest rates increased, and the yield curve steepened with the yield on the 2-, 5- and 10-year Treasuries increasing by 9 bps, 22 bps and 23 bps, respectively. Corporate credit issuance surged after the Labor Day holiday. Despite robust supply, spreads tightened on investment grade and high yield corporate bonds with the sectors outperforming Treasuries. Within securitized sectors, mortgage-backed securities performed best and outperformed like duration Treasuries. The only fixed income sector to put in positive absolute returns were bank loans thanks to their floating rate features. In overseas markets, increases in interest rates in developed and emerging markets weighed on returns as did U.S. dollar strength for U.S. investors in these overseas markets.

Alternative Strategies

Hedge fund strategies produced mixed results for the month with long/short equity strategies lagging the performance of diversifying strategies such as relative value and global macro/CTA strategies given upward moves in commodity and rate markets. Also performing well for the month were deep value strategies such as distressed and event driven as well as merger arbitrage managers given ample M&A activity.

Developed Market Returns (%)

	Month	Year to Date
S&P 500	(4.65)	15.93
Russell 2000	(2.95)	12.41
MSCI EAFE ($)	(2.90)	8.33
MSCI Europe ($)	(4.78)	10.06
MSCI UK ($)	(2.03)	12.18
MSCI Japan ($)	2.75	5.90
MSCI Pacific ex Japan ($)	(3.61)	4.77

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

Emerging Market Returns (%)

	Month	Year to Date
MSCI EM ($)	(3.97)	(1.24)
MSCI EM Asia ($)	(4.11)	(3.90)
MSCI EM EMEA ($)	0.68	20.89
MSCI EM Latin America ($)	(10.34)	(5.56)

Source: eVestment Alliance, MSCI

U.S. Fixed Income Returns (%)

	Month	Year to Date
Bloomberg Barclays Aggregate	(0.87)	(1.56)
Bloomberg Barclays Government	(1.06)	(2.41)
Bloomberg Barclays U.S. TIPS	(0.71)	3.51
Bloomberg Barclays U.S. Inv. Grade Corp	(1.05)	(1.26)
Bloomberg Barclays U.S. Mort. Backed	(0.37)	(0.67)
Bloomberg Barclays U.S. High Yield	(0.01)	4.54
Credit Suisse Leveraged Loan	0.65	4.67

Source: eVestment Alliance, Bloomberg Barclays, Credit Suisse

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

	Month	Year to Date
FTSE Non-U.S. WGBI Hedged	(1.21)	(2.30)
FTSE Non-U.S. WGBI Unhedged	(2.94)	(7.86)
JP Morgan EMBI Global	(1.96)	(1.53)

Source: eVestment Alliance, FTSE, JP Morgan