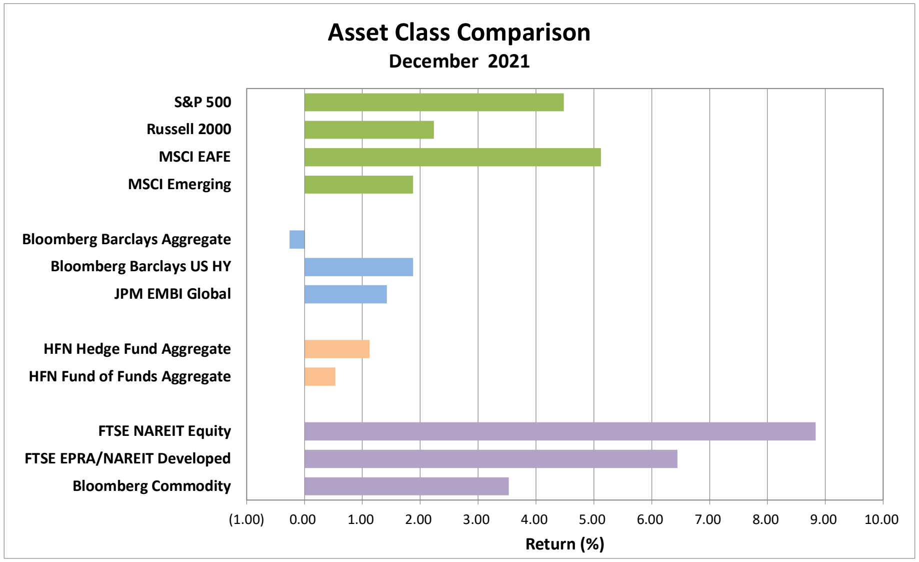
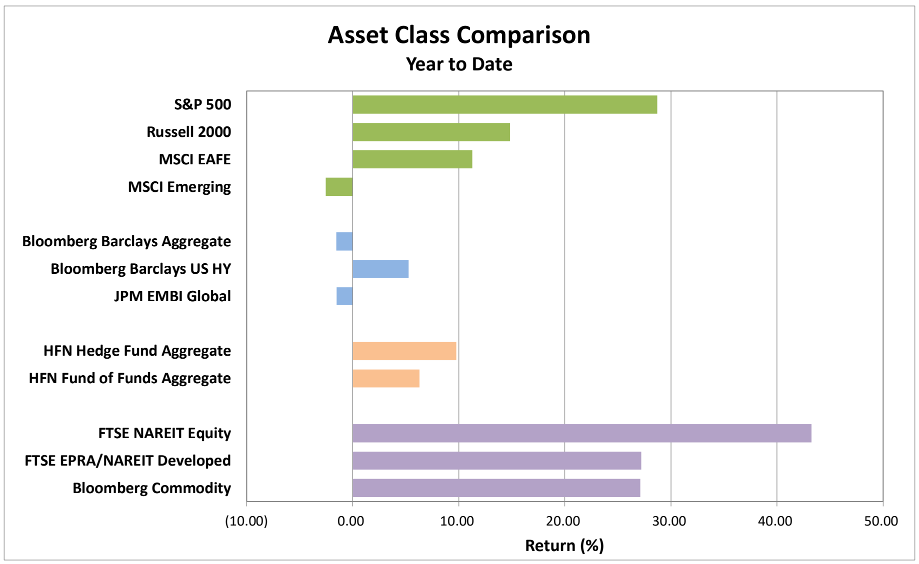
MESA: Monthly Market Flash

December 2021





Market Overview

- Global equity markets rebounded in late December on evidence that the Omicron variant may result in a milder form of the disease and appeared to be peaking in South Africa. In the U.S., emergency approval of pills to treat COVID as well as positive economic data and investor buying after November's market sell off caused U.S. equities to advance strongly. U.S. small caps continued to lag large caps but were nevertheless up more than 2% on the month. Markets in Europe were higher with returns further buoyed by currency strength.

- Developed market central banks began preparing the market for less accommodative policy with the U.K. raising its short term policy rate by 15 bps to 0.25% in December. Amid persistently high inflation readings, the U.S. Federal Open Market Committee decided to further slow the pace of asset purchases by $30 billion per month, up from $15 billion, which would end the emergency buying program 3 months early in March. A survey of FOMC members indicated the likelihood of more rate hikes during 2022, causing market interest rates to rise and bond prices to fall. Japan bucked the trend as economic weakness caused the Bank of Japan to emphasize that they would continue to be accommodative. Elsewhere in Asia, China began loosening bank reserve requirements to bolster economic activity amid a spike in COVID cases, regional lockdowns, and financial troubles in its property market. In other bond sectors, high yield outperformed the U.S. investment grade sector as corporate earnings and balance sheets remained strong and investors reached for yield. Emerging market debt also posted gains during the month after lagging for most of the year.

- Real estate markets continued to rebound as economic activity picked up with REITS being the best performing equity sub-sector. In commodity markets, energy prices were higher after last month's pullback with WTI crude oil up nearly 14% while natural gas prices continued to normalize after earlier supply disruptions with prices declining by 19% in December.

Equity Markets

The S&P 500 Index was up by 4.5% with value stocks outperforming growth by 450 bps. Across industries, there was a clear rotation with defensive and dividend-oriented sectors such as staples, real estate and utilities performing best followed by healthcare while consumer discretionary and IT were laggards. International developed market stocks outperformed the U.S. with returns of 5.1% as European stocks gained amid views that Omicron was less of a health threat and currencies rose against the U.S. Dollar as Norway and the U.K. raised rates. Asian markets lagged with the Yen declining relative to the U.S. Dollar. In emerging countries, markets were mixed with China and Russia declining while markets such as Taiwan, Korea and Mexico advanced. The year ended with U.S. equity market gains far surpassing other developed markets as well as emerging which was down 2.5% for the year driven by a host of challenges in China.

Fixed Income Markets

Global government bond markets pulled back as central banks signaled a normalization of monetary policy. In the U.S., interest rates increased, and the yield curve flattened with the yield on the 2-year Treasury increasing by 16 bps to 0.73% and the 10-year yield increasing by 6 bps to 1.51%. Corporate credit spreads tightened despite above average new issuance supply and outperformed like-duration Treasuries by 60 bps. Securitized sectors (MBS, ABS, CMBS) also outperformed Treasuries. The best performing sector for the month was high yield followed by leveraged loans and TIPS given the security's inflation protection features. These same three sectors were also the standout performers in the fixed income markets for the full year.

Alternative Strategies

Hedge funds advanced for the month with hedged equity strategies performing best as equity markets registered gains followed by global macro strategies which seek to exploit changes in rate, currency and commodity markets. While still advancing laggards included event driven strategies such as distressed and merger arbitrage. The fund of funds composite index returned 0.2% in December and 6.0% for the year.

Developed Market Returns (%)

	Month	Year to Date
S&P 500	4.48	28.71
Russell 2000	2.23	14.82
MSCI EAFE ($)	5.12	11.26
MSCI Europe ($)	6.60	16.30
MSCI UK ($)	7.30	18.50
MSCI Japan ($)	1.89	1.71
MSCI Pacific ex Japan ($)	3.29	4.68

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

Emerging Market Returns (%)

	Month	Year to Date
MSCI EM ($)	1.88	(2.54)
MSCI EM Asia ($)	1.51	(4.80)
MSCI EM EMEA ($)	2.28	18.01
MSCI EM Latin America ($)	5.94	(8.09)

Source: eVestment Alliance, MSCI

U.S. Fixed Income Returns (%)

	Month	Year to Date
Bloomberg Barclays Aggregate	(0.26)	(1.54)
Bloomberg Barclays Government	(0.51)	(2.28)
Bloomberg Barclays U.S. TIPS	0.31	5.95
Bloomberg Barclays U.S. Inv. Grade Corp	(0.08)	(1.04)
Bloomberg Barclays U.S. Mort. Backed	(0.09)	(1.04)
Bloomberg Barclays U.S. High Yield	1.87	5.28
Credit Suisse Leveraged Loan	0.63	5.40

Source: eVestment Alliance, Bloomberg Barclays, Credit Suisse

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

	Month	Year to Date
FTSE Non-U.S. WGBI Hedged	(1.14)	(2.35)
FTSE Non-U.S. WGBI Unhedged	(0.67)	(9.68)
JP Morgan EMBI Global	1.43	(1.51)

Source: eVestment Alliance, FTSE, JP Morgan