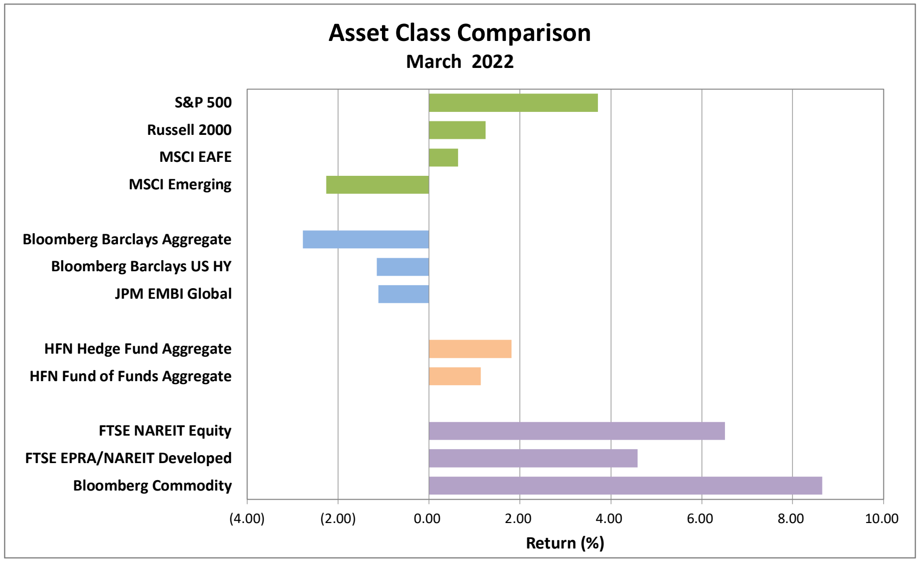
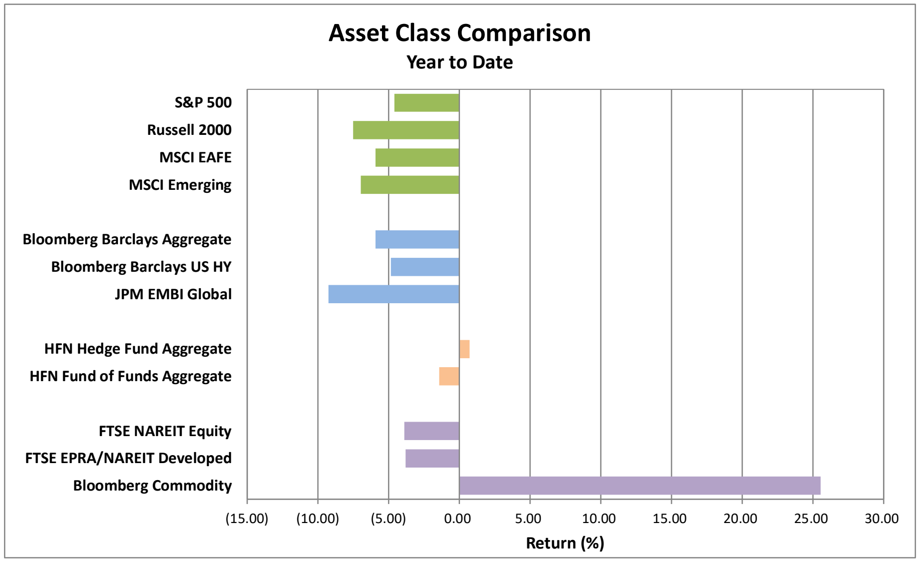
MESA: Monthly Market Flash

March 2022





Market Overview

- There was a rebound in developed market equities in March after a sizable drop in January and February. Market sentiment changed in mid-March after the first round of peace talks between Russia and Ukraine as well as guidance from the U.S. Fed on rate policy. The U.S. Federal Reserve Open Market Committee (FOMC) raised the Federal Funds target rate by ¼ of a point on March 16th from the zero interest rate policy (ZIRP) it had been following since the start of the pandemic in March 2020. In his post meeting comments, the Fed Chairman indicated that he expected an ongoing series of rate hikes to move away from significant policy accommodation given economic strength and persistently high levels of inflation. The FOMC's economic projections revealed that they expected 7 rate hikes in 2022 which was in-line with what the market was expecting and cheered for its prudence in combating inflation while the economy was still on solid footing.

- Against this backdrop, U.S. equities outperformed other developed markets by well more than 250 bps in March, reversing some of the decline recognized early in the year. European and Japanese equities were down fractionally while the U.K. made modest gains in March. Emerging markets struggled as China, the segment's largest market, was down 8% as it grappled with a series of challenges including a surge in coronavirus cases, the U.S. delisting of Chinese companies that did not meet audit and reporting requirements, and risk aversion associated with the Russia/Ukraine conflict. Markets in Eastern Europe were also down.

- Global bond markets continued to decline as interest rates increased amid the surge in inflation and central bank monetary policy tightening. Hedge funds provided protection with the HF Aggregate Index up 1.8% with macro/CTA funds performing best. Commodity markets were up 8.7% driven by a 27.7% surge in natural gas, 9.5% increase in composite crude oil, increases in industrial metals as well another 8% increase in wheat prices. Public real estate rebound along with equity markets.

Equity Markets

The S&P 500 Index rebound by 3.7% in March after declining 8% during the first two months of the year. Given the geopolitical uncertainty and surge in commodity prices the best performing market segments included defensive and commodity related sectors including utilities (10.4%), energy (9.0%), real estate (7.8%) and materials (6.1%) while financials (-0.2%) lagged given the flattening of the yield curve, a phenomenon that is unfavorable for net interest margins. As markets rebound and sentiment improved, growth stocks outperformed value and large caps beat small caps. European markets were mixed with the only other bright spots being countries that are commodity exporters (e.g., Brazil). The U.S. dollar was higher versus most major market currencies including the Yen, which is typically a safe-haven currency, but is not responding well given it is one of the few markets that is keeping rates low and monetary policy highly accommodative.

Fixed Income Markets

Global bond markets declined. In the U.S., interest rates increased, and the yield curve flattened to the point of inversion, where short term rates were higher than longer term rates, a phenomenon that is seen as a harbinger for recession. The yield on the 2-year Treasury, which is most sensitive to changes in monetary policy, increased significantly and was up 90 bps to 2.34% while the yield on the 10-year increased by 51 bps to 2.34% as well. The 5-year Treasury yield ended the month higher than the 10-year and 30-year Treasuries at 2.46%, an increase of 74 bps. The rapid rise in interest rates caused some of the most severe bond market declines in decades. Although still registering negative returns, investment grade corporate bonds outperformed Treasuries by 86 bps while mortgage back securities underperformed by 14 bps. High yield was down 1.2% with a market yield of 6.0%, a level that is beginning to garner some buyers' attention given yields were at 4.3% at the start of the year.

Alternative Strategies

Hedge funds and fund-of-funds protected capital and were up 1.8% and 0.6%, respectively with macro/CTA and multi-strategy funds performing best.

Developed Market Returns (%)

	Month	Year to Date
S&P 500	3.71	(4.60)
Russell 2000	1.24	(7.53)
MSCI EAFE ($)	0.64	(5.91)
MSCI Europe ($)	(0.10)	(7.37)
MSCI UK ($)	0.14	1.83
MSCI Japan ($)	(0.50)	(6.61)
MSCI Pacific ex Japan ($)	6.92	3.77

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

Emerging Market Returns (%)

	Month	Year to Date
MSCI EM ($)	(2.26)	(6.97)
MSCI EM Asia ($)	(3.09)	(8.65)
MSCI EM EMEA ($)	(6.22)	(13.67)
MSCI EM Latin America ($)	13.06	27.26

Source: eVestment Alliance, MSCI

U.S. Fixed Income Returns (%)

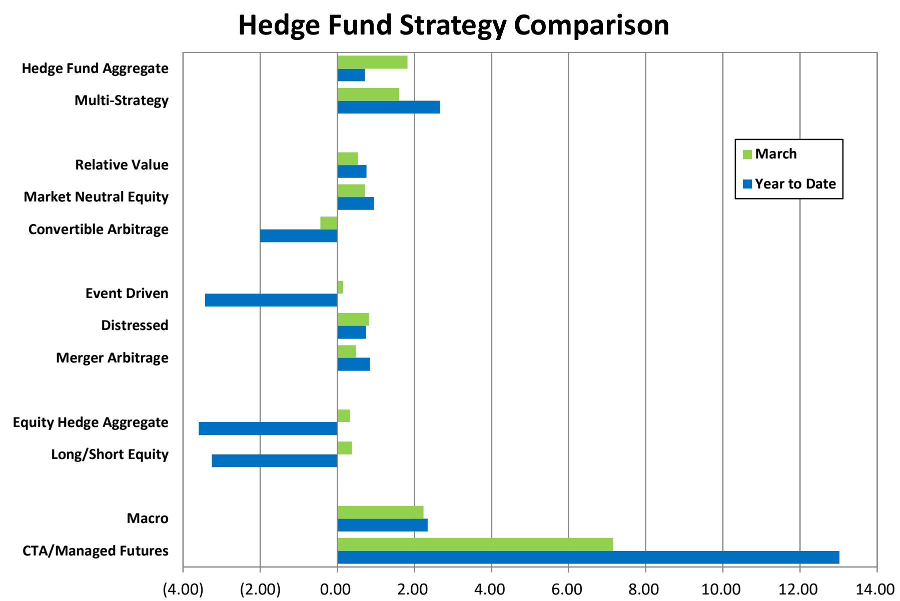
	Month	Year to Date
Bloomberg Barclays Aggregate	(2.78)	(5.93)
Bloomberg Barclays Government	(3.09)	(5.53)
Bloomberg Barclays U.S. TIPS	(1.86)	(3.02)
Bloomberg Barclays U.S. Inv. Grade Corp	(2.52)	(7.69)
Bloomberg Barclays U.S. Mort. Backed	(2.60)	(4.97)
Bloomberg Barclays U.S. High Yield	(1.15)	(4.84)
Credit Suisse Leveraged Loan	0.04	(0.10)

Source: eVestment Alliance, Bloomberg Barclays, Credit Suisse

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

	Month	Year to Date
FTSE Non-U.S. WGBI Hedged	(1.74)	(4.36)
FTSE Non-U.S. WGBI Unhedged	(3.73)	(7.13)
JP Morgan EMBI Global	(1.12)	(9.26)

Source: eVestment Alliance, FTSE, JP Morgan



Source: HFN Indices, eVestment Alliance