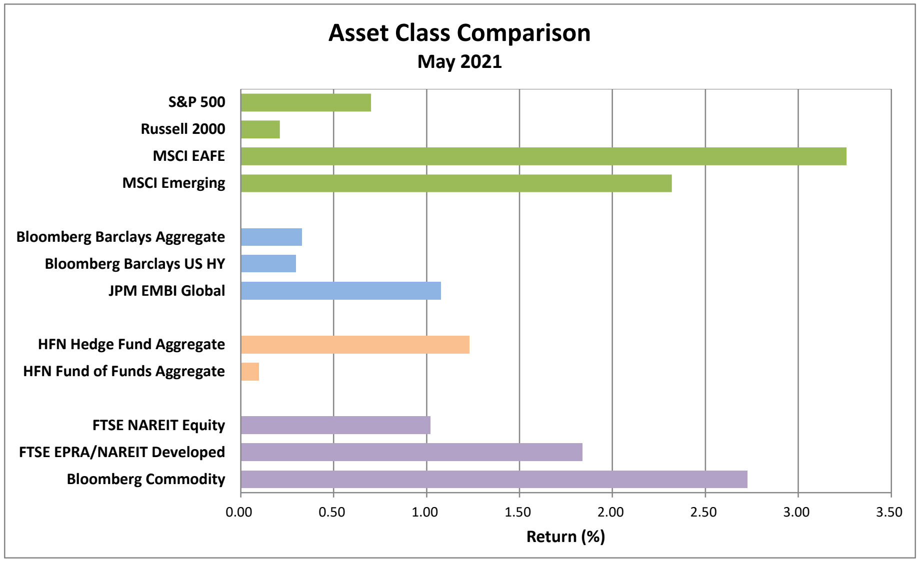
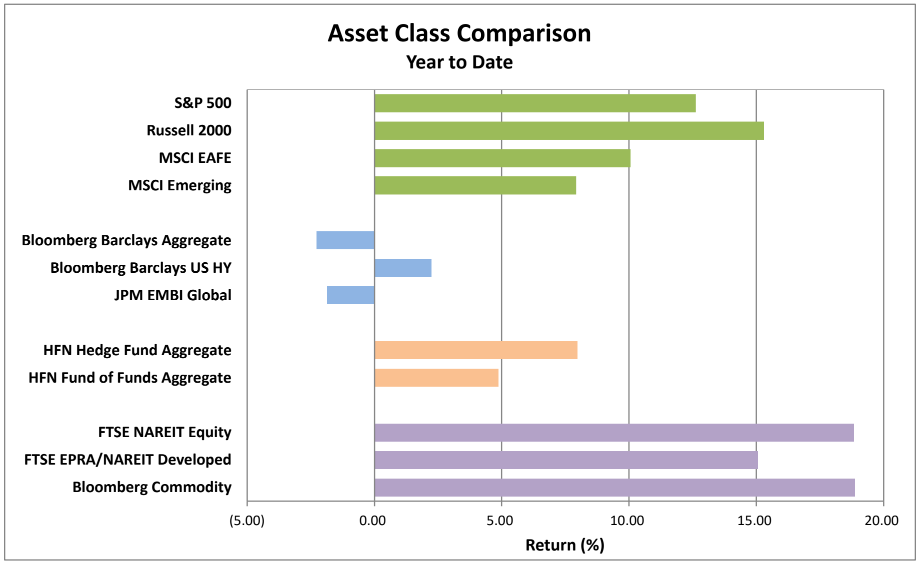
MESA: Monthly Market Flash

May 2021





Market Overview

- Steady progress with COVID-19 vaccinations, good economic data and a solid finish to the 1st quarter corporate earnings cycle remained the primary positive drivers supporting the U.S. equity market returns in May. European markets remain further behind in the pace of the overall recovery, but with lower market valuations and an accommodative central bank, the expectation is that this market will be rewarded with higher equity prices going forward.

- In the U.S., nearly 50% of the population had received at least one vaccination shot by month's end, helping to ease remaining lockdown measures. Guidance on indoor activities and the required use of masks were also eased, with many locations returning to pre-pandemic conditions. Vaccinations accelerated within Europe after having lagged the initial pace seen in the U.S. Progress on this front allowed various markets to ease lockdown protocols and set the stage for increased cross border travel. The notable laggard in vaccination activity has been Japan, which this spring had to declare a new state of emergency and initiate additional lockdown measures as a resurgence in COVID-19 cases was bucking the global trend. The country will remain in focus as world representatives gather for the Olympic games in the second half of July.

- Economic data in two of the world's largest economies, the U.S. and China, has generally been quite strong as first quarter GDP in the U.S. registered 6.4%, while China saw an 18.1% increase in activity. Elsewhere, economic data has been weaker, with Eurozone and Japanese GDP figures remaining negative for the 1st quarter. On the negative side, U.S. non-farm payrolls for April did fell materially short of expectations, although the reason for the shortfall was cited as a lack of job seekers rather than a lack of jobs, which is generally viewed as a temporary issue associated with enhanced unemployment benefits that are scheduled to end in September.

- Inflation measures in the U.S. came in hotter than expected, resulting in selling pressure on equities for a portion of the month. Markets quickly recovered as reassurances from Fed officials suggested the readings were, in their view, highly transient due to weaker year-over-year comparisons and short-term anomalies such as the temporary shutdown of a key gasoline pipeline due to hacking activity that led to a spike in fuel prices. Still, a 0.9% increase for the April CPI reading, resulting in a 4.2% increase over the last 12 months, was notably higher than both the estimate (+3.6%) and the Federal Reserve's policy target.

Equity Markets

Equity markets across most developed economies continued to move higher in May as stronger economic activity and solid corporate earnings remained supportive. The S&P 500 index gained 0.7%, while small cap stocks, represented by the Russell 2000 index lagged by a small margin with a 0.2% gain. Value segments resumed market leadership in May with energy, financial and material stocks leading the gains. Lagging were consumer discretionary and technology shares. Outside the U.S., the MSCI EAFE index of developed equity markets outperformed the U.S. in May with a 3.3% gain in U.S. dollar terms, with weakness in the dollar adding to the local currency return of 2.2%. European markets outperformed during the period as an easing in lockdowns are translating to improved economic activity, stronger consumer sentiment and increased spending. The MSCI Emerging Markets index marginally underperformed the non-U.S. developed markets with a 2.3% gain, as relative weakness in the large markets of China, India and Mexico offset stronger gains in Brazil and Russia.

Fixed Income Markets

After climbing sharply earlier in the year, U.S. Treasury yields finished lower for the second consecutive month as market concerns over inflation were assuaged by the Federal Reserve's commitment to remain accommodative until there is a recovery in employment. This includes the willingness to endure higher levels of inflation. The yield on the 10-year Treasury finished the month lower by 5 bps (1.58%). As has been the case over the past year, there was very little change to the short end of the curve, with the yield on the 2-year Treasury ending at 14 bps, just 2 bps lower than the start of the month. The Bloomberg Barclays Aggregate index finished the month with a gain of 0.3%, but remains down 2.3% year to date. Investment grade corporate bonds benefited from solid buying activity, while high yield bonds were also positive as demand for energy company debt remained robust given the recovery in oil prices to over $70/bbl.

Alternative Strategies

The majority of hedge fund strategies generated positive returns in May, helping the HFN Hedge Fund Aggregate index to a 1.2% gain on the month and a gain of nearly 8% on the year. The managed futures category was the month's standout performer with a gain of 2.3% helped by persistence in short-term price trends in several commodity markets. Multi-strategy managers also performed well on the month averaging a 1.5% gain, while event driven was also a solid performer (+1.2%) thanks to good returns from distressed-focused managers. Equity market neutral was the notable laggard with a loss of 0.2%, the only strategy outside of dedicated short selling with a negative return.

Developed Market Returns (%)

	Month	Year to Date
S&P 500	0.70	12.63
Russell 2000	0.21	15.30
MSCI EAFE ($)	3.26	10.06
MSCI Europe ($)	4.17	13.34
MSCI UK ($)	4.01	15.28
MSCI Japan ($)	1.56	1.58
MSCI Pacific ex Japan ($)	2.14	11.36

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

Emerging Market Returns (%)

	Month	Year to Date
MSCI EM ($)	2.32	7.26
MSCI EM Asia ($)	1.25	6.01
MSCI EM EMEA ($)	5.80	16.98
MSCI EM Latin America ($)	7.99	6.02

Source: eVestment Alliance, MSCI

U.S. Fixed Income Returns (%)

	Month	Year to Date
Bloomberg Barclays Aggregate	0.33	(2.29)
Bloomberg Barclays Government	0.34	(3.11)
Bloomberg Barclays U.S. TIPS	1.21	1.12
Bloomberg Barclays U.S. Inv. Grade Corp	0.77	(2.85)
Bloomberg Barclays U.S. Mort. Backed	(0.18)	(0.73)
Bloomberg Barclays U.S. High Yield	0.30	2.26
Credit Suisse Leveraged Loan	0.52	3.06

Source: eVestment Alliance, Bloomberg Barclays, Credit Suisse

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

	Month	Year to Date
FTSE Non-U.S. WGBI Hedged	0.11	(2.72)
FTSE Non-U.S. WGBI Unhedged	1.23	(3.88)
JP Morgan EMBI Global	1.08	(1.87)

Source: eVestment Alliance, FTSE, JP Morgan