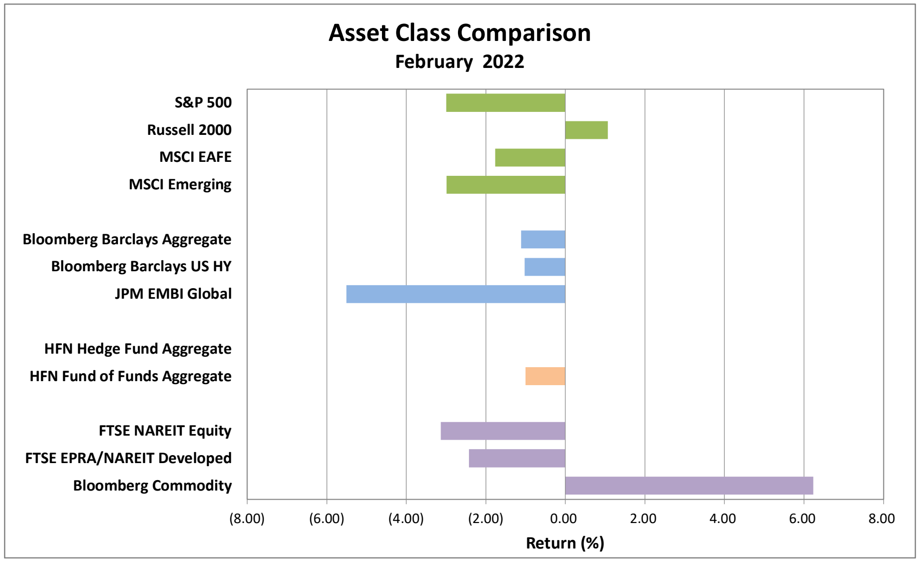
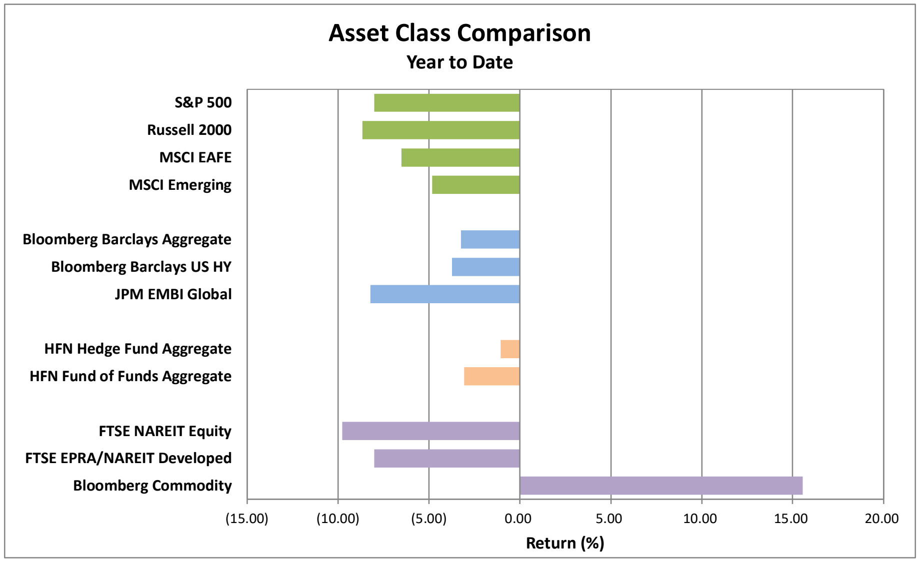
MESA: Monthly Market Flash

February 2022





Market Overview

- Global market attention shifted from central bank monetary policy tightening during the first half of the month to the shock of the Russian invasion of Ukraine on February 24th. Market volatility surged in reaction to heavy troop movements and violence, the unfolding humanitarian crisis, the flood of refugees entering Europe, and western nations' strong economic and financial market sanctions against Russia. Equity markets declined across the globe on increasing supply disruptions, price inflation, and the negative impact the cascade of events would have on economic growth.

- In developed equity markets, the U.S. was one of the laggards with the S&P 500 Index declining by 3.0% and nearing correction territory after January's dismal returns. All industry sectors registered losses except energy (+7.1%) given the spike in oil prices. Small cap stocks registered positive returns (+1.4%) given the benchmark has a higher weighting in energy and small caps have more domestically oriented businesses thought to be more insulated from events overseas than large multi-national corporations. Eurozone markets were down the most as was emerging markets, particularly in Eastern Europe. The only emerging markets to see gains were countries that were oil exporters and miners.

- Global interest rates increased, and bond prices declined, particularly credit, although emerging market sovereign debt markets sold off the most. Treasury Inflation Protected Securities (TIPS) were again one of the few fixed income sectors registering gains. REITS were down 2-3% in sympathy with most equity sectors while hedge funds provided some good downside protection with the HF Aggregate Index down fractionally (-0.01%) while the Hedge Fund of Funds Index was down -0.6%. Commodity markets were up 6.2% led by agricultural products and energy. Ukraine and Russia account for 30% of global wheat supply causing a surge in wheat prices (21.7%) while oil prices also spiked. WTI crude oil was up 9.5% in February. Gold was up 5.8%.

Equity Markets

The S&P 500 Index was down in February with value stocks outperforming growth by about 300 bps. The best performing sectors were energy (+7.1%), industrials (-0.9%) and materials (-1.2%) while laggards included communication services (-7.0%), IT (-4.9%) and REITS (-4.9%). Small caps outperformed large caps by a wide margin. In Europe, countries on the continent saw their stock markets tumble while the U.K. market was up 0.8% owing to its higher exposure to natural resource companies. Japan was down 1.1% while China was down 3.9%. Emerging market equities were down 3.0% overall with a wide dispersion in returns. Eastern Europe was the worst while countries in the middle east and Latin America were up given many are commodity exporters. Brazil was up as the central bank signaled it may slow their current pace of policy rate increases.

Fixed Income Markets

Global bond markets declined. In the U.S., interest rates increased, and the yield curve flattened. The yield on the 2-year Treasury, which is most sensitive to changes in monetary policy, increased by 25 bps to 1.43% while the yield on the 10-year increased by 5 bps to 1.83%. Investment grade credit spreads widened by 16 bps to 122 bps with credit underperforming like-duration Treasuries by 124 bps. Securitized sectors (MBS and ABS) underperformed but to a lesser extent. High yield credit was down 1% while bank loans, which have a floating rate feature, were down only 0.5%. TIPS gained 0.86% in February. Elsewhere, the Bank of England raised its target rate another 25 bps to 0.5% while the ECB kept its easy monetary policy unchanged. Japan indicated it would continue its easy monetary policy stance with analysts speculating that the recent rise in inflation could bring Japanese inflation to the long-elusive 2% target. The era of negative interest rates in Europe and Japan appear to be over for now.

Alternative Strategies

Hedge funds were down fractionally. Global macro and CTA/managed futures funds, which seek to exploit changes in rate, currency and commodity markets did best as did distressed and merger arbitrage funds while more directional, equity-oriented funds did less well.

Developed Market Returns (%)

	Month	Year to Date
S&P 500	(2.99)	(8.01)
Russell 2000	1.07	(8.66)
MSCI EAFE ($)	(1.77)	(6.52)
MSCI Europe ($)	(2.82)	(7.27)
MSCI UK ($)	0.79	1.69
MSCI Japan ($)	(1.12)	(6.13)
MSCI Pacific ex Japan ($)	2.81	(2.95)

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

Emerging Market Returns (%)

	Month	Year to Date
MSCI EM ($)	(2.99)	(4.83)
MSCI EM Asia ($)	(2.34)	(5.74)
MSCI EM EMEA ($)	(10.23)	(7.94)
MSCI EM Latin America ($)	4.83	12.56

Source: eVestment Alliance, MSCI

U.S. Fixed Income Returns (%)

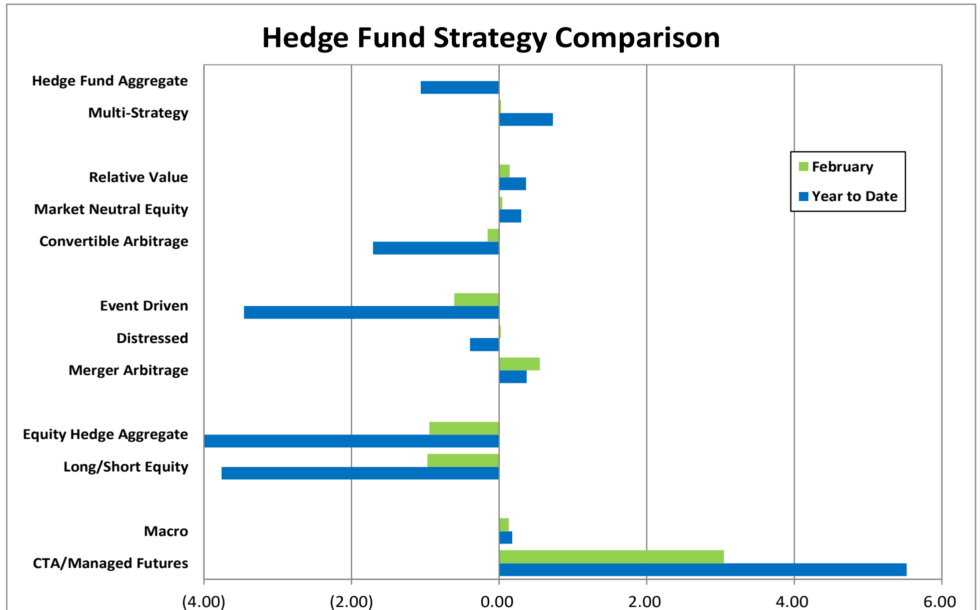
	Month	Year to Date
Bloomberg Barclays Aggregate	(1.12)	(3.25)
Bloomberg Barclays Government	(0.66)	(2.52)
Bloomberg Barclays U.S. TIPS	0.86	(1.18)
Bloomberg Barclays U.S. Inv. Grade Corp	(2.00)	(5.30)
Bloomberg Barclays U.S. Mort. Backed	(0.97)	(2.44)
Bloomberg Barclays U.S. High Yield	(1.03)	(3.73)
Credit Suisse Leveraged Loan	(0.50)	(0.14)

Source: eVestment Alliance, Bloomberg Barclays, Credit Suisse

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

	Month	Year to Date
FTSE Non-U.S. WGBI Hedged	(1.44)	(2.67)
FTSE Non-U.S. WGBI Unhedged	(1.27)	(3.53)
JP Morgan EMBI Global	(5.50)	(8.23)

Source: eVestment Alliance, FTSE, JP Morgan



Source: HFN Indices, eVestment Alliance