



QUARTERLY ASSET CLASS REVIEW

NEPC Research

Third Quarter
2021

GLOBAL EQUITIES

Global equities turned in a mixed performance for the three months ended September 30, rounding out the quarter with a streak of volatility as inflationary pressures fueled concerns around economic growth and tapering of monetary stimulus. U.S. equities were modestly positive in the third quarter with the S&P 500 Index up 0.6%; international developed markets posted a moderate loss of 0.4%. Chinese stocks declined 18.2%, pulling down emerging markets, which fell 8.1%, as investors fretted over regulatory risk and contagion from a potential default by struggling Chinese real estate conglomerate Evergrande. U.S. small-cap stocks lagged large-cap equities, while international and emerging market small caps outperformed large-cap equities. The diverging performance between value and growth stocks narrowed in the third quarter, with U.S. large-cap growth equities modestly outperforming large-cap value, while U.S. small-cap growth equities underperformed small value. Within sectors financials, utilities, communication services, healthcare and technology led the market, while industrials, materials, energy and consumer sectors underperformed.

In hedge funds, long/short equity funds underperformed, losing 0.5% during the quarter. Many managers fared poorly in July with bets on Chinese companies detracting from performance but outperformed in September amid broad market volatility.

Meanwhile, global private equity fundraising totaled

Global Equity Market Returns as of 9/30/2021

Global Equity	Quarter	1 Year	3 Yrs	5 Yrs
MSCI ACWI	-1.1%	27.4%	12.6%	13.2%
US Equity	Quarter	1 Year	3 Yrs	5 Yrs
S&P 500	0.6%	30.0%	16.0%	16.9%
Russell 1000 Growth	1.2%	27.3%	22.0%	22.8%
Russell 1000 Value	-0.8%	35.0%	10.1%	10.9%
Russell 2000	-4.4%	47.7%	10.5%	13.5%
Russell 2000 Growth	-5.7%	33.3%	11.7%	15.3%
Russell 2000 Value	-3.0%	63.9%	8.6%	11.0%
International Equity	Quarter	1 Year	3 Yrs	5 Yrs
MSCI EAFE	-0.4%	25.7%	7.6%	8.8%
MSCI EAFE Hedged USD	1.3%	27.2%	7.2%	9.0%
MSCI EAFE Small Cap	0.9%	29.0%	9.0%	10.4%
MSCI Europe	-1.6%	27.3%	7.8%	8.8%
MSCI Emerging Markets	-8.1%	18.2%	8.6%	9.2%
MSCI Emerging Markets Small Cap	-2.2%	43.2%	13.1%	9.8%
MSCI China	-18.2%	-7.3%	5.9%	9.1%
Alternative	Quarter	1 Year	3 Yrs	5 Yrs
HFRI Equity Hedge	-0.4%	28.1%	11.0%	-0.1%
HFRI Emerging Markets	-1.8%	20.2%	9.2%	-0.4%
HFRI ED: Activist	-2.6%	29.3%	8.5%	-0.5%
HFRI ED: Merger Arbitrage	0.8%	19.4%	7.1%	0.2%

\$118 billion in the third quarter, according to Preqin, a far cry from the prior quarter's record high of \$299.6 billion. That said, fundraising in 2021—\$646.2 billion so far this year—looks to be on track to surpass the \$699 billion raised in 2020. U.S. buyout deal activity—confirmed and estimated—came in at a robust \$297.5 billion, according to PitchBook data, bringing the year-to-date total to a record \$787.6 billion. U.S. buyout exit activity hit a new quarterly high of \$283.7 billion; exit activity in 2021, at its current pace, is on track to more than double the previous record of \$412.6 billion in 2018. In another quarterly high, deal activity in venture capital totaled \$82.8 billion for the three months ended September 30, fueled mostly by large late-stage deals of \$50 million or more; during the same period, exit activity remained strong, at \$187.2 billion, according to PitchBook.

GLOBAL FIXED INCOME

Fixed-income markets ended the quarter mostly flat despite an uptick in volatility. Initially, yields on the 10-year Treasury note dipped amid concerns around growth and the COVID-19 Delta variant, but they moved back up in the vicinity of 1.5% as the Federal Reserve stayed the course on future tapering. In corporate credit, shorter-duration securities and high-yield debt outperformed Treasuries, while longer-dated corporate credit lagged.

Meanwhile, hedge fund indexes focused on structured credit posted another strong quarter with the HFRI Relative Value: Fixed Income-Asset Backed Index returning 1.5%. Despite the volatility, emerging markets debt also saw little change despite the concerns around a potential default by Evergrande.

Global Fixed-Income Market Returns as of 9/30/2021				
Global Fixed Income	Quarter	1 Year	3 Yrs	5 Yrs
BC Global Aggregate	-0.9%	-0.9%	4.2%	2.0%
JPM EMBI Global Diversified	-0.7%	4.4%	5.7%	3.9%
JPM GBI-EM Global Diversified	-3.1%	2.6%	3.7%	2.1%
Domestic Fixed Income	Quarter	1 Year	3 Yrs	5 Yrs
BC Aggregate Bond	0.1%	-0.9%	5.4%	2.9%
BC Municipal Bond	-0.3%	2.6%	5.1%	3.3%
BC TIPS	1.8%	5.2%	7.4%	4.3%
BC US Treasury	0.1%	-3.3%	4.9%	2.2%
BC US Long Treasury	0.5%	-10.3%	9.2%	3.3%
BC MBS	0.1%	-0.4%	3.9%	2.2%
BC US Credit	0.0%	1.4%	7.1%	4.4%
BC US Long Credit	-0.2%	2.1%	10.2%	6.1%
BC High Yield	0.9%	11.3%	6.9%	6.5%
BC Muni High Yield	0.4%	11.3%	7.4%	6.0%
S&P LSTA Lev. Loan	1.0%	6.7%	3.9%	4.3%
BC T-Bills	0.0%	0.1%	1.2%	1.2%
Alternative	Quarter	1 Year	3 Yrs	5 Yrs
HFRI Credit Index	2.2%	17.8%	5.9%	6.4%
HFRI ED: Credit Arbitrage	2.3%	19.7%	6.9%	7.6%
HFRI ED: Distressed/Restructuring	5.5%	32.5%	8.1%	9.0%
HFRI Relative Value	1.8%	14.4%	4.7%	5.2%

REAL ASSETS

Real assets were a mixed bag in the third quarter as volatility crept in. During this period, real estate investment trusts (REITs) were flat, while energy equities gained 5%. Oil prices remained above \$70 per barrel, with WTI rising over 2% to about \$75 per barrel. Natural gas finished up 61% quarter-over quarter

at \$5.87 per MMBtu. In July, OPEC+ agreed to boost output by 400,000 bpd a month until at least April 2022 to gradually phase out the 5.8 million bpd of existing production cuts amid increasing demand.

Private core real estate posted strong gains with a quarterly record high gross return of 6.59% in the third quarter, according to the NCREIF ODCE Index, bringing year-to-date returns to 13.12%; performance has largely been driven by accelerating rent growth in industrial and multifamily assets.

Real Asset Returns as of 9/30/2021

	Quarter	1 Year	3 Yrs	5 Yrs
Bloomberg Commodity	6.6%	42.3%	6.9%	4.5%
GSCI Commodity	5.2%	58.3%	-1.5%	3.6%
Gold Spot	-0.7%	-6.8%	13.8%	6.0%
WTI Crude Oil Spot	2.3%	87.8%	0.9%	9.5%
BBG Commodity - Agriculture	-1.0%	44.7%	12.3%	1.9%
BBG Commodity - Energy	21.0%	78.8%	-6.0%	0.7%
BBG Commodity - Industrial Metals	2.1%	37.1%	10.9%	10.6%
BBG Commodity - Precious Metals	-4.6%	-7.8%	12.2%	3.8%
S&P Global Natural Resource Equities	-3.8%	46.1%	4.6%	9.3%
NAREIT Composite Index	0.1%	32.3%	11.2%	8.3%
NAREIT Global REIT Index	-0.1%	34.3%	7.4%	5.1%
Alerian Midstream	-1.3%	66.9%	3.9%	2.4%

DISCLAIMERS

Past performance is no guarantee of future results.

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