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The University of Iowa Center for Advancement (UICA)
Quarterly Investment Report – March 31, 2021

Overview

Markets around the globe were buoyed by the rollout of COVID-19 vaccinations and continued market liquidity. Many global equity indices reached record highs while interest rates and inflation expectations also rose. As economic activity returned to a more normalized pace, investor attention turned toward how long loose monetary policy would remain in place.

Global Equity

The global equity composite returned 6.4 percent during the quarter, 55.3 percent over the past year and an annualized 12.0, 14.1, and 9.6 percent over the past three-, five- and 10-year periods.

Investor optimism improved in the US as vaccinations gained momentum and a third fiscal stimulus package was rolled out. Retail investors showed their power by banding together to purchase heavily shorted stocks in an effort to hurt short-selling hedge funds. "Meme stocks" that rely on increased trading volume from investors on social media, rather than fundamental news released by companies, to drive up stock prices moved into the national consciousness. Stock leadership began rotating away from large cap and growth stocks into small cap and value stocks in the last quarter and continued into the most recent quarter.

Outside of the US, both developed and emerging markets posted strong returns amid varying degrees of economic recovery. European markets were up, but investors were cautious as COVID-19 infection rates increased and some countries reinstated lockdown measures. UK markets rallied on increased vaccinations and easing lockdown measures. An increase in infection rates also weighed heavily on Brazil, which saw its market finish the quarter in negative territory. China also finished the quarter down amid a tighter economic policy outlook.

After pausing fundraising in March 2020, general partners are back in the market with a vengeance in 2021. According to Preqin, around $110 billion was raised in buyouts funds in the quarter, nearly doubling from the previous year. We are also seeing an uptick in deal activity from our funds, both in capital calls and distributions. Distributions from our funds were generally from companies in the market to be sold before the pandemic struck, but capital calls for new deals have been from GPs that either became more comfortable with due diligence through Zoom or returned to traveling sooner than their peers. Other funds are requesting extensions on investment periods, in part due to the industries on which they concentrate. Business owners in industries hardest hit by the pandemic are more reluctant to sell at reduced prices and might wait for their businesses to recover, though some owners are pushing up retirement plans and are more eager to sell.

Global Fixed Income

The global fixed income composite returned 0.7 percent during the quarter and 9.8 percent for the trailing year. Over longer time periods it increased an annualized 4.7, 5.5, and 5.8 percent for the three-, five- and 10-year periods. During the quarter the Fed left interest rates and their pace of asset purchases unchanged and upgraded its economic growth projections for 2021 GDP from 4.2 percent to 6.5 percent. This put upward pressure on interest rates and the slope of the yield curve. Shorter duration and lower quality credits such as high yield and bank loans had strong relative returns, but inflationary concerns weighed on investor's minds.

Real Assets

The real assets composite returned 8.6 percent for the quarter, 25.7 percent for the one year, and an annualized 1.5, 5.2, and 4.4 percent over the past three-, five-, and 10-year periods. The rollout of vaccines and reopening of economies has been a substantial tailwind for both real estate and natural resources. The real estate sectors most affected by COVID-19 (shopping centers, malls, retail, and hotels) rebounded in the quarter. Commodities, led by energy and lumber, had strong performance, though precious metals and some agricultural commodities struggled. Real assets are arguably viewed as inflation hedges, though the correlation of real asset to inflation is generally less than what we would expect to be considered a hedge. Of course, correlation does not mean causation and investors should view inflation hedges with a grain of salt. A diversified portfolio of many asset classes is probably the best way to hedge inflation.

Diversifying Strategies

The diversifying strategies composite returned 1.7 percent for the quarter, 12.8 percent for the one year, and an annualized -1.6, 1.5 and 3.1 percent over the past three-, five-, and 10-year time periods. While all areas of the composite had positive performance during the quarter, event-driven managers had the strongest performance on the back of equity and credit market rallies on positive vaccination news. Music royalties continue to make headlines as more artists sell their catalogs. It remains to be seen if too much money has been raised to invest in the space, but we are more cautious in today's environment.

Conclusion

The most recent quarter favored risky assets in lieu of safe havens like high-quality bonds. The surprising pace of the economic recovery has started to cause investors to question when fiscal and monetary policies will begin to tighten. The last deflationary month, May 2020, rolled off the 12-month period ending May 2021. As a result, inflation shot up to an unadjusted 5.0 percent, well above the Fed's 2 percent mandate. While the Fed contends inflation is transitory, many employers are finding it hard to attract workers without increasing pay, which investors fear could cause further inflation and end the accommodative policies. We feel that the portfolio is positioned appropriately to take advantage of the current market environment and to meet our return objectives into the future.

Please let me know if you have any questions regarding the above information. You can reach me at (800) 648-6973.

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