DELEGATE

ASSET CLASS PERSPECTIVES + MARKET INDEX RETURNS
Q1 2021

Summary of Market Index Returns as of 12/31/2020

FIXED INCOME	Q4	1-Year	3-Year	5-Year	10-Year
Barclays Global Aggregate	3.3%	9.2%	4.8%	4.8%	2.8%
Barclays U.S. Aggregate	0.7%	7.5%	5.3%	4.4%	3.8%
Barclays Corporate High Yield	6.5%	7.1%	6.2%	8.6%	6.8%
S&P/LSTA U.S. Leveraged Loan Index	3.8%	3.1%	4.0%	5.2%	4.3%
EQUITIES					
S&P 500 (Large Cap)	12.1%	18.4%	14.2%	15.2%	13.9%
S&P Small Cap 600	31.3%	11.3%	7.7%	12.4%	11.9%
MSCI EAFE Index (International)	16.0%	7.8%	4.3%	7.4%	5.5%
MSCI Emerging Markets Index	19.7%	18.3%	6.2%	12.8%	3.6%
OTHER					
HFRI Fund of Funds Diversified Index	7.4%	10.5%	4.9%	4.4%	3.3%
HFRI Fund of Funds Composite Index	7.9%	10.3%	4.7%	4.5%	3.3%
Bloomberg Commodity Index	10.2%	-3.1%	-2.5%	1.0%	-6.5%

Source: Morningstar, Bloomberg. Returns for periods longer than one year are annualized.

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DELEGATE ADVISORS ASSET CLASS PERSPECTIVES:
First Quarter 2021

Underweight – – Neutral to Underweight – Neutral = Neutral to Overweight + Overweight + +

	Q4 2020 (vs. policy allocation)	Q1 2021 (vs. policy allocation)	
CASH	+ +	+ +	Holding cash has material option value, especially during times of uncertainty, high valuations, and significant volatility. In the current low interest rate and relatively flat yield curve environment, short-term high quality cash equivalent strategies can be utilized to mitigate the cash drag on a portfolio without significant opportunity cost relative to fixed income.
CORE FIXED INCOME	+	=	Investors should seek investment grade exposure through short duration, quality assets and should diversify across the asset class (i.e., MBS, ABS, corporate bonds, and municipals) while avoiding passive indexing. A relative overweight in core fixed income should be used to opportunistically fund long-term exposure to global equities over time.
GLOBAL FIXED INCOME	– –	– –	Largely because of negative rates across Europe, global bonds fail to adequately compensate investors for duration and exchange rate risk. Investors should avoid bonds with a negative yield, many of which are found in many popular passive international indexing strategies.
BANK LOANS	– –	–	Bank loans are susceptible to credit risk, which has increased as a result of COVID-19 impacts on demand, and default rates are likely to rise if the economic recovery sputters. Large amounts of “covenant-lite” loans outstanding as a percentage of issuance could lead to lower than expected recovery rates and a prolonged downturn. LIBOR floors on new issues and limited duration, however, should support loan values during a rising rate environment.
U.S. HIGH-YIELD DEBT	– –	– –	Spreads have tightened materially from early-year highs, but still remain below their 5 and 20 year averages, likely indicating further defaults in the future, which would be a headwind to forward returns. If spreads dramatically widen, we may recommend entering the asset class as a relatively short-term opportunity.
EMERGING MARKET DEBT	–	–	Emerging market debt could be impacted by global spread widening and currency volatility. We recommend avoiding debt of countries with uncertain sovereign issues.

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	Q4 2020 (VS. POLICY ALLOCATION)	Q1 2021 (VS. POLICY ALLOCATION)	
PRIVATE DEBT	+	+	Private markets provide a compelling illiquidity premium and a higher yield relative to public markets. Due to large capital inflows into direct lending strategies, we recommend focusing private debt exposure primarily on special situations and distressed strategies.
U.S. LARGE CAP EQUITY	–	–	Over the long-term (i.e., 8-10 years), we favor equities relative to bonds. Valuations, however, remain at or near historic highs. Therefore, we recommend adding to equities when buying opportunities present themselves to build towards portfolio targets. We also recommend focusing on quality and industries with secular tailwinds (e.g., technology and health care) and active management relative to passive for new allocations due to high market valuations and sector concentration in cap weighted indexing strategies.
U.S. SMALL CAP EQUITY	–	–	Over the long-term (i.e., 8-10 years), we favor equities relative to bonds. Valuations, however, remain at or near historic highs. Therefore, we recommend adding to equities when buying opportunities present themselves to build towards portfolio targets. We also recommend focusing on quality and industries with secular tailwinds (e.g., technology and health care) and active management relative to passive for new allocations due to high market valuations and sector concentration in cap weighted indexing strategies.
EAFE EQUITY	–	=	Eurozone equities carry relatively low valuations when compared to U.S. equities. We remain somewhat cautious, however, due to continued uncertainty regarding Brexit and growing social unrest across Europe. We also recommend active management relative to passive for new allocations due to high market valuations and sector concentration in cap weighted indexing strategies.
EMERGING MARKET EQUITY	=	=	Emerging market equities carry relatively lower valuations and higher long-term growth potential than global developed equities. Investors should focus on country diversification (the MSCI Emerging Markets Index is ~33% China) and consider active management due to the inefficient nature of the asset class.
PRIVATE EQUITY	+ +	+ +	P.E. offers a compelling illiquidity premium relative to public markets. We favor small and middle market buyout, secondaries, sector specialists, and certain niche opportunities like GP stakes. Vintage year and strategy diversification is critical given late cycle market dynamics and elevated purchase multiples.
HEDGED STRATEGIES	+ +	+ +	Many hedged strategies are designed to provide uncorrelated returns, alpha opportunities, and a reduction in overall portfolio risk. Heightened levels of volatility are likely to create a more favorable environment for managers to capture alpha. We favor market-neutral strategies with low beta exposure as a proxy for intermediate- to long-term bonds.

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	Q4 2020 (vs. policy allocation)	Q1 2021 (vs. policy allocation)	
REAL ESTATE	+ +	+ +	With retail, hospitality, and many office properties under pressure due to the potentially permanent effects of COVID-19, we favor opportunistic and value-add multi-family and commercial strategies with regionally focused managers who have significant market presence and access to differentiated deal flow. Patient and opportunistic managers with "dry powder" are likely to see compelling opportunities over the next 12 months as the lasting impacts from COVID-19 are realized.
COMMODITIES	+	+	Commodities tend to rise during later stages of economic expansion and provide a potential inflation hedge. We favor strategies that focus on underlying assets that display persistent backwardation, may have tight inventory balances, and may experience a price increase in response to an increase in demand.

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