

National Conference on Public Employee Retirement Systems (NCPERS)

Virtual Meeting

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Presenter

Ron Temple

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Head of US Equity at Lazard Asset Management

Ron spent the first half of the meeting talking about the Covid-19 pandemic. The U.S. is at the worst level of Covid cases per day, but the death rates are much better because of a number of factors. The U.S. is down slightly from the prior two weeks. There is a new more virulent mutation of the Virus but fortunately it can be treated with the vaccine. We have learned how to treat the virus much better than when the virus first began. There are three approved therapies: Remdesivir, Monoclonal Antibodies and Regeneron, and Dexamethasone. There is a NY Times Coronavirus Drug and Treatment Tracker, NY Times Vaccine Tracker, and the Bloomberg Vaccine Tracker if you want to stay on top of the virus. Sometime in the second quarter of 2021 we should be at herd immunity, but we are way behind in getting shots in arms. There are four stages: Phase 1a, Phase 1b, Phase 1c, and Phase 2. The vaccines are 95% effective. This virus does not mutate very much. Ron suggested that even if you had Covid-19 you should still get the vaccine.

He spent the last half of the meeting talking about the Monetary & Fiscal Policy Response.

The Fed purchased over \$3 trillion of securities in 45 weeks which has been quite helpful. However, this does create social problems because of who benefits from this purchase. The Fed announced \$2.9 trillion of potential funding but so far borrowers have only drawn \$93 billion. The U.S. pre-election fiscal stimulus totaled \$2.8 trillion.

Key benefits of Senate Control

- Cabinet confirmations
- Judicial appointments
- Control over floor voting
- Use of budget reconciliation (≤ 2 x per year)

Ron is concerned that those who need a bailout, the low wage earners (those under \$60,000), are the ones that will not benefit from another stimulus package.

In China , industrial activity rebounded faster than the service industry and auto sales increased as mass transit slowed. Chinese authorities boosted investment using monetary policy however, debt increased again due to COVID support.

Euro Zone manufacturing rebounded sharply but is slowing. The service industry has reversed due to the 2nd wave of lockdowns. European workers were protected by short-term work schemes. In Europe the employer, not the employee, files unemployment benefits as they want to keep the employees on the payroll, so they do not have to train new employees when business returns.

In the U.S., our primary focus is on jobs as the low labor force participation understates unemployment rates. Jobless benefits were extended through March 11th. Job losses are concentrated on low wage service sector jobs where low-income employment declined 20% in 2020. Stimulus helped but spending is down and plateauing. High-income households cut consumption the most which contributed to sharp decline in services consumption. Small businesses are the backbone of the U.S. economy and their revenue is down 33% this year.

Key events to watch in 2021 –

Globally: Vaccine rollout timeline is critical

United States

- Additional COVID relief
- Infrastructure/climate investments

- Tax reform
- Trade policy changes

Europe

- German elections in September
- EU recovery fund begins disbursements at end of H1 2021.
- Ongoing Brexit challenges for UK

China

- Ratification of 14th 5-Year Plan in March 2021, with “quality of growth” to be emphasized.
- Deleveraging returns to focus

Strategic Asset Allocation – “Light Blue Wave”

- Fixed Income
 - Monetization and yield curve control
 - Investment in productivity enhancing infrastructure increases growth expectations.
 - New Fed monetary policy framework allows potential for inflation overshoot.
 - Yield curve steepening more likely.
 - Duration management critical challenge
- Equities
 - Increased productivity and GDP growth = broader, higher revenue growth...
 - ...but also, higher discount rates
 - Equity rotation likely from future growth to near-term cash flow if fiscal stimulus is realized.
 - Sustainable equity investing increasingly attractive.
 - Quality structurally advantaged but could be challenged near-term.
- Alternative Investment
 - Excessive leverage unsustainable
 - Income producing real assts attractive for inflation hedge.