February 2023 Performance Summary

In February, markets cooled as resilient economic data and policymaker rhetoric caused investors to price in further policy rate hikes and curb expectations for the potential for rate cuts in 2023. Inflation in the US continued to decelerate, though at a slower pace than was anticipated, which further contributed to weakening sentiment in the U.S.

While the U.S. equity market posted a 2.4% decline in February, Japanese and European equities posted moderate gains in local currency. In U.S. dollar terms, however, those gains were erased as the U.S. dollar strengthened against nearly all major currencies during the month. The Emerging Markets were the weakest performing equity market in February, led by China, which pulled back amid heightened geopolitical tension. Within fixed income, rising yields negatively impacted bond prices, and global bonds were further impacted by currency weakness (relative to the U.S. Dollar).

In February, the Long-Term Pool declined by 1.7%, outperforming the policy benchmark by 50 basis points. On a relative basis, the Pool's hedge funds, non-us, global and special opportunities equity asset classes posted the largest relative outperformance, while large and small-cap domestic equity negatively impacted results. Year-to-date, the Long-Term Pool gained 3.8%, which represented a 90 basis points premium to the benchmark.

The Socially Responsible Pool declined 2.2% for the month, underperforming its policy benchmark return by 10 basis points. Year-to-date, the Pool gained 4.2%, which topped the benchmark by 110 basis points. The Pool's above target allocation to public equities and outperformance within domestic and global equity have been the largest contributors to 2023 results.

The Mid-Term Pool declined 2.2% for the month, trailing its policy benchmark by 10 basis points. Year-to-date, the Pool gained 2.5%, which was in-line with benchmark. As the Pool is largely invested in index funds, any return differences are primarily driven by cash movement in the Pool that result in temporary deviations from policy asset allocation targets.

As life inches towards post-COVID normalcy, a whirlwind of swirling geopolitical, economic, and capital-market conditions continuously reminds us that change is inevitable, with inflection points emerging from each new crisis. While such moments are uncomfortable, history has shown us that it would be prudent to recognize and act on the opportunities that emerge for long-term investors. This is far easier said than done, as it demands suspicion of conventional wisdom, extraordinary patience, and a willingness to pursue contrarian ideas born from another reliable force: human nature.

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