Market Volatility –
A Statment from MERS Chief Investment Officer

January 28, 2022

The current volatility experienced by global financial markets is driven by three primary factors. First, market corrections are expected after a prolonged bull market. At its peak, the S&P 500 was more than 90% higher than its March 2020 low. After two years of double-digit equity returns, a correction within the equity markets is a normal part of the cycle.

Second, the Federal Reserve signaled that it intends to reduce asset purchases and begin raising interest rates in an effort to blunt rising inflation. Economists are anticipating three to five rate increases during 2022. Rising interest rates increase borrowing costs on businesses and put pressure on corporate profits, depressing business sentiment.

Finally, supply chain issues are unlikely to be resolved in the coming year, putting additional upward pressure on prices.

The MERS Office of Investments began making significant investment in inflation-sensitive securities over the past seven years. As a result, MERS is well-positioned with investments in precious metals, agriculture and liquid commodities. Our performance is particularly strong on both an absolute and relative basis, exceeding the assumed rate of return for all time periods over the last 10 years. With a 14.32% return in 2021, the Defined Benefit Portfolio also exceeded its policy benchmark, which returned 11.61%.

The Portfolio is designed to provide significant downside protection and has handled the market correction as expected. As of January 21, 2022, the MERS Defined Benefit Portfolio returned -2.59% YTD, compared to -4.58% for the policy benchmark, an excess return of nearly 2%. We remain committed to our long-term strategy of building a diversified portfolio and will continue to protect MERS assets while seeking to take advantage of better asset pricing during the downturn.