THE ECONOMIC CLIMATE

U.S. real GDP fell again during Q2, down -0.9% annualized (+1.6% over the past full year). This stoked broad fears of recession, as two consecutive quarters of negative growth is a common definition of technical recession. U.S. real personal consumption slowed to pre-COVID rates of growth, coming in at 2.1% year-over-year in May. The buying habits of consumers appear to have transitioned back towards services and away from goods, reversing the unprecedented spending shift that had occurred during the pandemic. This trend should help mitigate strained supply chains, as fewer goods require shipping.

MARKET PORTFOLIO IMPACTS

U.S. core CPI slowed to 5.9% year-over-year in June. Headline inflation, which includes food and energy prices, came in surprisingly hot at 9.1% year-over-year, exceeding expectations. Higher energy prices were a major driver of the inflation print, with energy commodities and gasoline moving more than 10% higher from May to June. Credit markets sold off during Q2, impacted by concerns of a slowing economy and possibility of recession as the Fed signaled a willingness to raise rates until inflation slows. Bank loans performed the best at -4.4% and outperformed longer duration bonds such as investment grade and high yield (-7.3% and -9.8%, respectively).

THE INVESTMENT CLIMATE

Russia’s invasion of Ukraine continued, resulting in heavy losses on both sides. Most fighting has taken place in the east, as Russia gradually advances. Both Finland and Sweden are in the process of joining NATO—a landmark move and result of war likely unforeseen by Russia. Early in 2022 many investors feared a potential global commodity shortage—a product of underinvestment in production capacity in recent years. Russia’s invasion of Ukraine further amplified these concerns, pushing commodities higher. This trend appears to have reversed, as recession is a notable possibility, and many commodities have seen sharp losses.

FISCAL YEAR TO DATE PERFORMANCE

With respect to the fiscal year, the Endowment portfolio experienced a 9.3% decrease in the period ending June 2022. During the period, Equities and Fixed Income posted negative returns and underperformed their benchmarks.
The above are the historical returns for each of the five investment pools. For the trailing one year, is not reflected in the returns.

Underlying Investment Managers

Domestic Equity: Vanguard FTSE Social Index, Vanguard Extended Market ETF
International Equity: Causeway International Value, EuroPacific Growth, DFA International Small Cap, Calvert Emerging Markets Equity
Fixed Income: Dodge & Cox Income, Met West Total Return, Vanguard Inflation Protected Securities
Alternative Investments: AQR Style Premia Fund

Notes: The above are the historical returns for each of the five investment pools. Investment performance of individual funds may vary from the total pool return due to the timing of contributions and grants. Historical returns are not a predictor of future returns. The returns above are net of fees paid to investment managers. This fee represents the plans’ blended expense ratio and is between 50 and 60 basis points annually. The fee for our investment consultant, Verus, is not reflected in the returns.

ENDOWMENT POOL

The Endowment pool decreased 10.7% during the quarter. For the trailing one year the Endowment was down 12.2%. Domestic Equity was down 18.2% and International Equity was down 14.6% over the quarter. Total Equities account for 60.1% of the portfolio, Domestic Equity and International Equity underperformed their benchmarks over the period. The Pool’s Fixed Income securities, which comprises 23.6% of its total assets, saw a drop of 5.4% for the quarter and underperformed its benchmark. The 10.4% allocation to REITs was down 13.4% and outperformed its benchmark.