MAKENA STRATEGY INSIGHTS – December 31, 2013

Wage, Income, Rates, Taxation, and Regulation: Why Growth Will Remain Below Historical Trend

Q4
PERIOD ENDING
December 31, 2013

Portfolio Strategy & Macroeconomic Outlook

The US Economy

Typically, rates rise when growth is robust: as economic activity increases, capital becomes scarcer, wages and prices of other inputs rise, ultimately leading to inflation and therefore to a tightening of monetary policy. Unfortunately, we have seen rates increase under the Fed's tapering program but several of the ingredients usually present in a robust recovery are missing. For instance, as we have pointed out many times, real household disposable income remains flat as it has been now for nearly a decade, inflation has been below target for several quarters, and unemployment remains stubbornly high especially if adjusted for part-time workers. This is hardly the description of a robust recovery requiring that the economy be cooled off with higher rates. Given that the CBO estimates that 10 year US treasury rates will increase from ~2.7% currently to 3.5% by Q1 2015, and to 5.0% by Q4 of 2017, we expect rate increases to be a headwind to growth in the next few years[1]. Such high rates, unless substantially higher growth manifests itself, will be grim news for governments and households that continue to be overleveraged – indeed it could very well be that forward rate market expectations are unrealistic and that given tepid growth rates will remain lower for longer than anticipated.

This quarter we explore another important dimension of the US economy: wages and income. We will show that the US is unlikely to face significant broad-based wage pressures in the near- to mid-term. Furthermore, with many currencies weakening against the USD, traded goods, which make up about 1/3 of CPI, will be exerting a deflationary effect on the US economy. This implies that measured inflation will most likely remain subdued in the near-term. We will also show that a divergent set of conditions for high-earners versus low-earners creates a number of issues, most importantly implying lower trend growth going forward. The divergence between the two segments of the population also helps explain why we see seemingly contradictory macro data: how can unemployment fall while real disposable household income remains unchanged? This is yet another headwind to growth in addition to increasing rates, increasing taxation and increasing regulation – all reasons why we believe long-term potential growth for the US will remain below the historic potential growth trend of 2.75-3%. Even as the outlook for 2014 US growth is relatively bright at ~3%, it is important to remember (as detailed in previous materials) that in order to "catch-up" to historic trend growth, we would need sustained growth above 3.2% for at least 4 consecutive years[2].

What if we were to trim the potential growth rate down to 2.25%, a modest 50 basis point reduction, factoring in the headwinds to growth – increasing taxation, increasing regulation, increasing age of the population, increasing entitlements, and so forth? The answer would be lower returns on capital in general, less investment opportunities, continued subdued inflation, and bond yields below the CBO forecasts.

When a Job is not a Job

While we are optimistic for the prospects of the US economy and US assets *relative* to other developed markets, it seems doubtful that growth will materialize in a way consistent with historic trend growth. Accordingly, in this letter, we identify yet another dimension to both growth and employment currently at play in the US economy: many of the new jobs being created are not equivalent to the old jobs that were lost in the recession. While we are seeing a steady stream of new jobs being created, it is important to understand the quality of those jobs in terms of the income they provide. The following analysis will shed some light on why real disposable US household income has been flat for nearly a decade, and why it seems likely that the trend will continue.

Figure 1 below shows unemployment by educational achievement. Most of the rise in unemployment predictably affected those with high school degrees or less. Although college graduates saw a modest uptick in unemployment, college graduate unemployment has fallen back to levels where we could see modest wage pressures in certain skilled job categories. In contrast,

[1] http://cbo.gov/publication/45066
[2] Outside of the dot-com bubble, the Reagan era and the Carter stimulus, there have been no such extended growth periods since the 60s.

unemployment rates amongst less educated segments of the labor force remain at elevated levels. These different realities for skilled vs. unskilled workers has been one driver of increasing inequality.

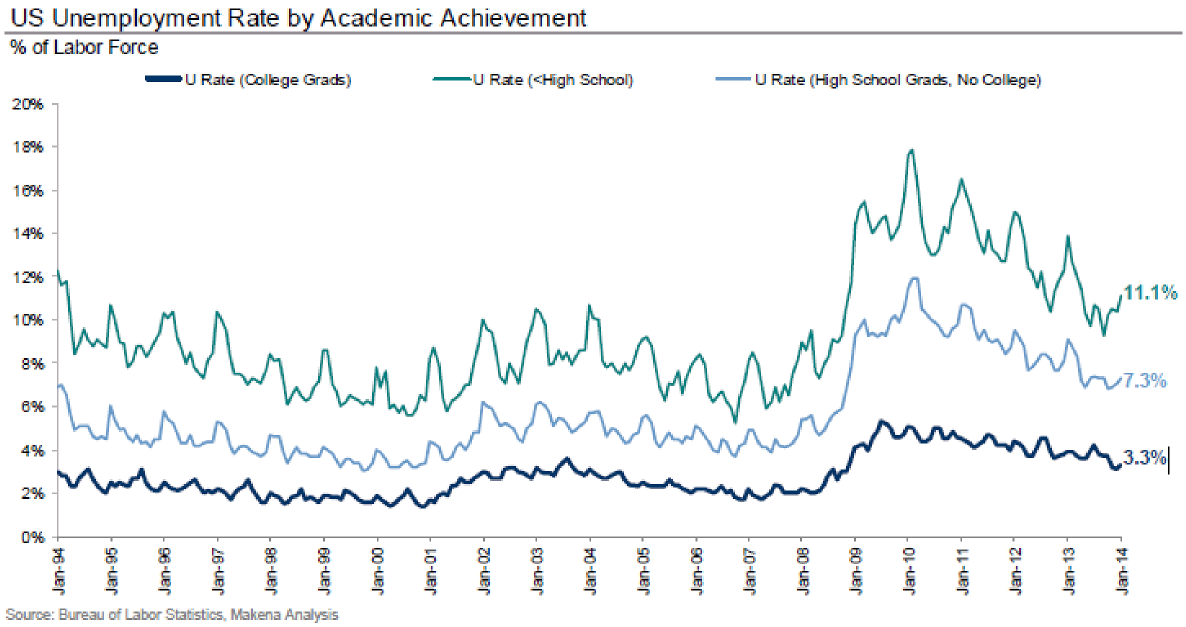


Figure 1: Unemployment by Academic Achievement

Furthermore, a large proportion of the new jobs being created are low-wage jobs. Perhaps this is not surprising since most of the unemployed have relatively lower skills. However, it is important to think of the change in incomes that these workers have suffered. Consider the former construction worker earning $50,000 a year building homes now working a few hours a week at a home improvement store for $10 an hour or less – technically that person is no longer unemployed, even though from an economic standpoint, that person is but a shadow of their former economic self.

Figure 2 below illustrates what has happened to employment by income quartile of job type. For instance, a construction job might be in the second or third quartile income category, whereas a retail store clerk is a bottom quartile income occupation. Figure 2 clearly illustrates that the share in employment of occupations that are bottom or second quartile in income have increased, while occupations in the third quartile of income are shrinking. Nearly 2/3 of new jobs created since the recession's start are bottom or second quartile income occupations, with all the net losses coming out of the third quartile. Indeed, a recent study by the National Employment Law Project finds that nearly 45% of net employment growth since the recession has been in the lowest income job categories, e.g. food preparation, retail sales, freight, home-care aides and so on[3].

[3] The Low-Wage Recovery and Growing Inequality, NELP, August 2012

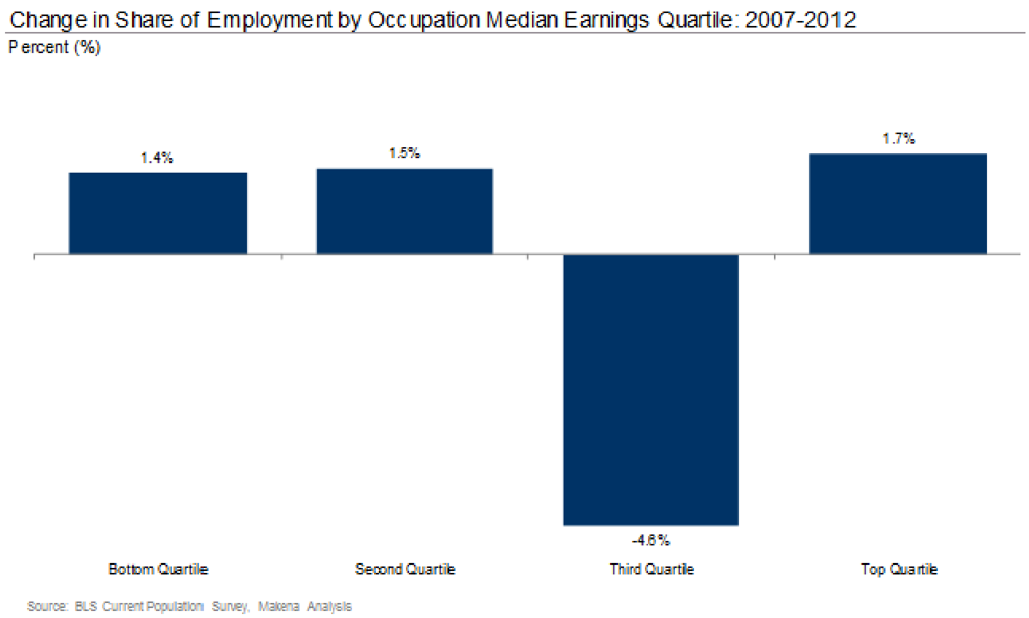


Figure 2: Employment Shares by Income Quartiles – The Hollowing Out of the Middle Class

Said differently, a job is not a job. While jobs are being created in the US, they are of lower "quality" than the jobs that were lost during the recession. Ironically, the much celebrated re-industrialization of the US is a mixed blessing: while the increased competitiveness of the US is certainly a positive, the typical income generated by non-union blue collar workers in the American southeast (where the reindustrialization is occurring) will most likely be below the median US income. Meanwhile, manufacturing jobs in many EM countries are above average income occupations, so the re-industrialization of the US hurts EM countries more than it benefits the US. Furthermore, this has a knock-on effect on potential growth for the US, as many of these low wage jobs offer little chance for workers to increase their wages substantially. Since one of the fundamental drivers of GDP growth is income growth, this is yet another headwind to US growth to add to our list.

Finally, let us note that this increase in low-wage jobs is not a US-only phenomenon, but is one that is being actively documented across the developed world. A recent set of books published as part of a research program known as The Future of Work highlighted the following[4]: "Soon one in four of those working in the most developed economies of the western hemisphere may be low paid and find themselves at increased risk of poverty. [...] These low-wage jobs [...] are concentrated in hotels, catering and retail industries." Figure 3 below shows the size of the low-wage phenomenon across several key countries. We will address the question of what are the potential drivers of this low-wage phenomenon further on in this letter.

[4] Case Studies of Job Quality in Advanced Economies, 2008, Russell Sage Foundation, New York

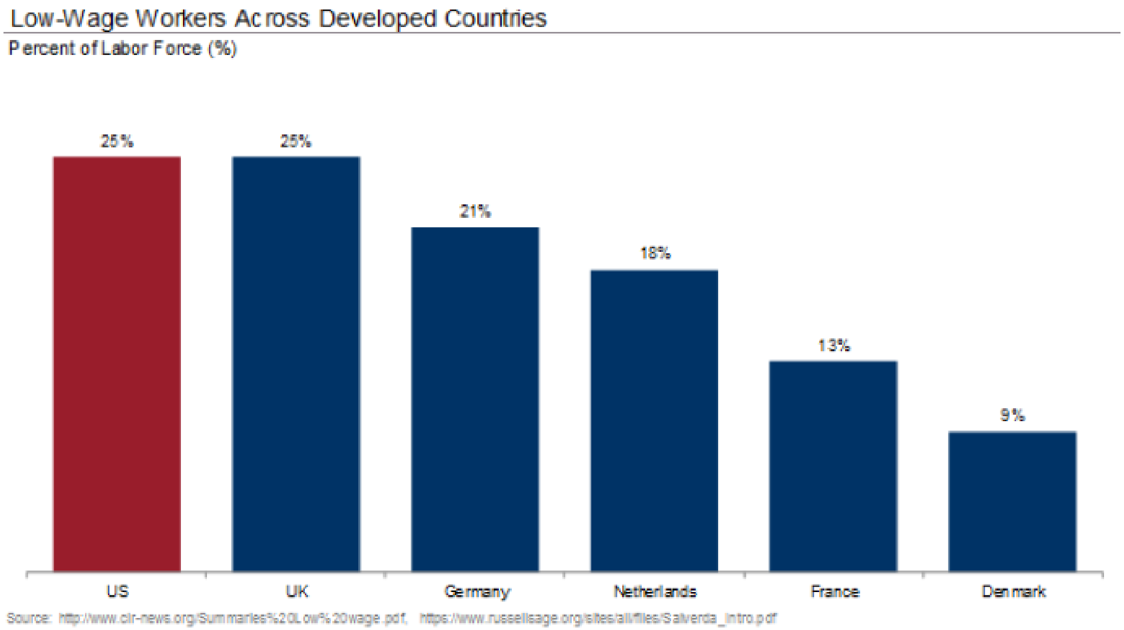


Figure 3: The Low Wage Phenomenon across the Developed World

Low Wages a Drag on Growth

There is a growing amount of literature that establishes a link between GDP growth and low wages[5]. The research indicates that if a household has so little income that it is preoccupied with day to day survival, then it has neither the time nor the money available to invest in developing its own human capital, for instance through formal education.

Having large numbers of people earning less than a certain income level creates insufficient investment in human capital, lowers aggregate demand, and therefore contributes to insufficient business investment. Said differently, if even the poorest American earned more than enough to ensure a relatively comfortable standard of living, low wages would not harm growth. Figure 4 below illustrates the situation for the US, based on the Department of Health and Human Services estimate of the minimum amount of income required to be able to pay for shelter, food, healthcare, childcare and education. For the typical household of four, with two working adults and two children, the minimum income required is estimated at $67,920. Compared with the median household income of $50,000 a year[6], the implication is that ~56% of US households probably do not earn enough to properly invest in developing family members' skills, and "under consume" relative to their needs. Similar conclusions can be drawn for other household types.

[5] Inequality and Unsustainable Growth: Two Sides of the Same Coin?, IMF Staff Discussion Note, April 2011
[6] See www.census.gov/hhes/www/income/

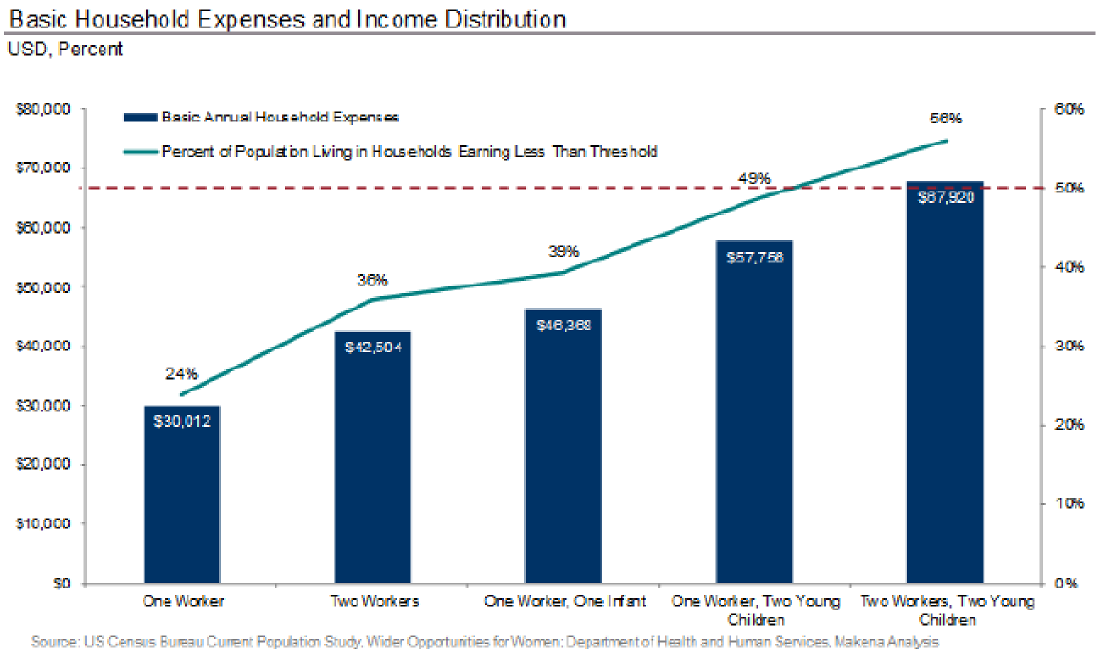


Figure 4: Minimum Income Requirements for Various Household Types vs US Income Distribution

This high and growing size of the low-income phenomenon is likely an important driver of the relatively low social mobility now found in the US. Figure 5 below shows intergenerational income elasticity, i.e. the importance of parents' income in determining children's incomes. The US fares relatively poorly on this measure with parents' incomes being highly predictive of their children's incomes. While there are debates around the validity of social mobility data, one aspect for the US is generally accepted as fact: once a household reaches a very low income state, it is extremely difficult to break back out of that income level. This is consistent with our finding above that many households in the US lack the income to be able to develop their skills through education. In other words, once a household reaches a very low level of income, it enters a sort of "black hole" from which it is nearly impossible to escape. Add together enough households in this predicament, and dramatic shifts in the political landscape seem likely. Indeed, the past election in the US had President Obama giving speeches that often sounded similar to speeches by social democrats in Europe. We have a long way to go before we reach the levels of bureaucracy and taxation prevalent in Europe–however the recent tax hikes and entitlement increases seem to be moving us in that direction. President Obama's new 2014 budget calls again for increased taxation on high earners. We are not here to write about politics except to note that a shift towards European-style government has important implications for US growth: potential GDP growth rates in Europe hover around the 1% mark, versus above 2% here in the US.

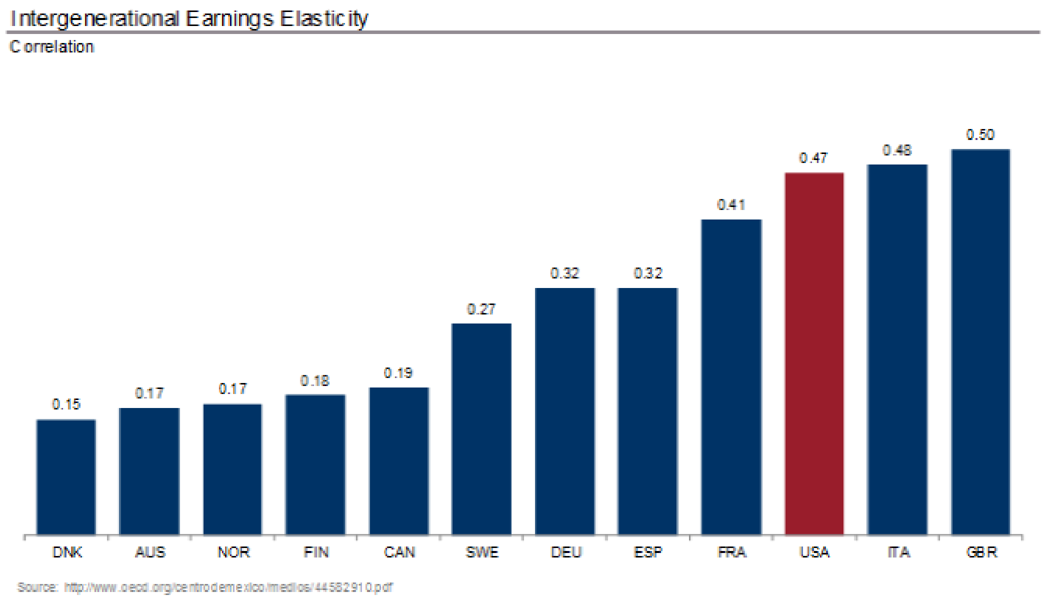


Figure 5: Correlation between Parents' and Children's Incomes

The Dark Side of Globalization and Technology

The preceding discussion raises an important question: are the decline of the middle class and the rising low-wage phenomenon in developed economies the outcomes of a globalized world where developed economy workers are competing with their emerging market counterparts, and with machines or technology?

This is a difficult question to answer conclusively, yet a number of indicators show very worrisome trends. For instance, an important economic statistic that has been declining for the past thirty years is the labor share of income. This can be thought of as the amount of business income that is paid to employees in the form of wages or other benefits as opposed to being paid to the owners of capital (i.e. dividends, share buybacks or retained earnings). As can be seen in Figure 6 below, the labor share of income has declined significantly over the last thirty years both in the US and even more so in other developed countries. This latter aspect is important because it suggests that the root cause of the decline is not due to policy differences across countries (e.g. labor laws / collective bargaining).

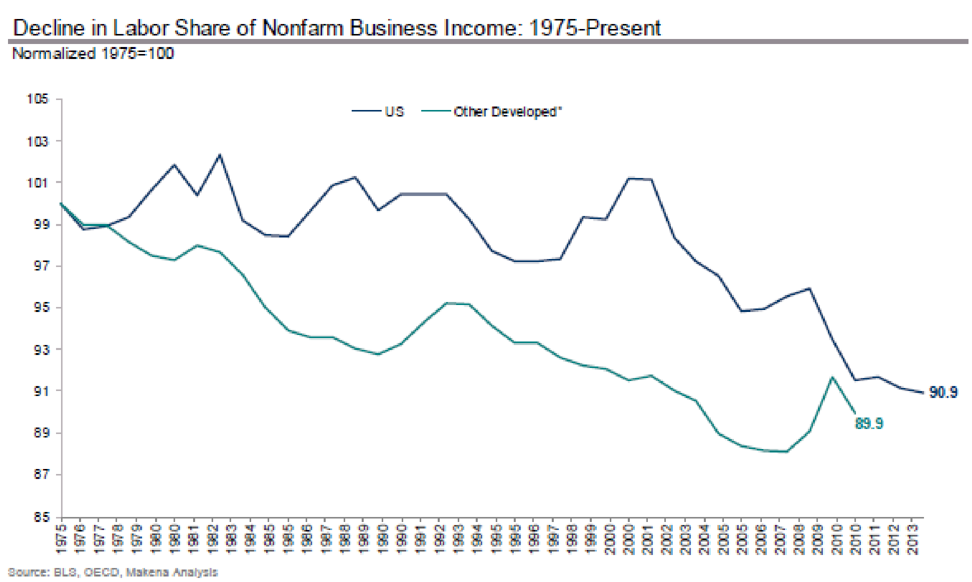
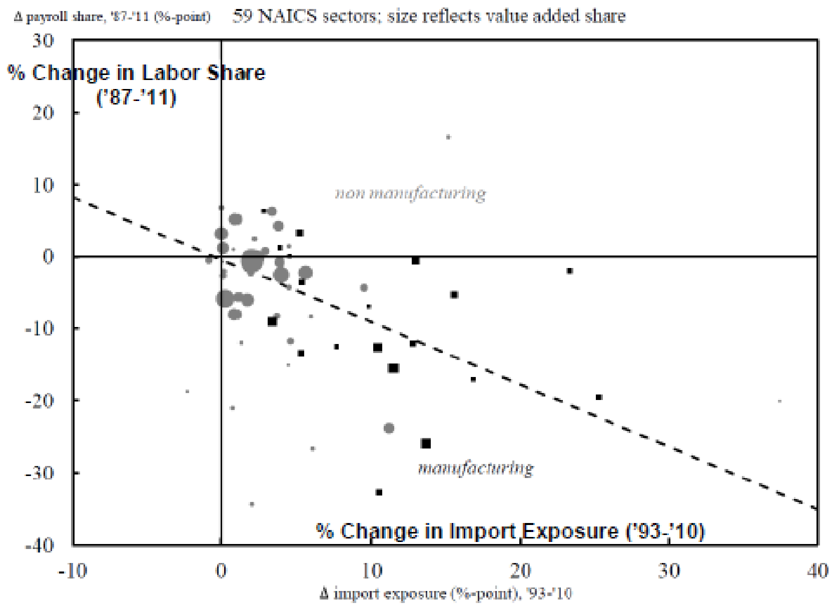


Figure 6: Decline in Labor Share of Nonfarm Business Income (1975-Present)

A number of recent studies are increasingly pointing to a combination of globalization and technology driving the lower labor share of income. For instance, a recent Brookings Institution study estimated that increased import exposure of US businesses as a result of globalization explains 84% of the decline in the labor share of income over the last 25 years.[7] Figure 7 below from the study clearly shows the relationship between import exposure and declining labor share of income.



Source: Bureau of Economic Analysis, Bureau of Labor Statistics, and authors' calculations

Figure 7: Reduction in Labor Force Driven by Increase in Import Exposure

Further research by the University of Chicago found that half the decline global labor share of income over the last 35 years was attributable to a decline in the price of investment goods as a result of improved technology.[8]

The kinds of jobs that are most susceptible to offshoring and to capital substitution (by computers or machines) are precisely the kinds of middle-skill, middle-wage jobs that have been disappearing among the developed economies. The Economist recently published a list of jobs that will disappear or shrink within the next 20 years – some of the occupations included: accountants, auditors, technical writers, economists, and commercial pilots, to name a few[9]. None of these are minimum wage occupations. Most if not all of these can be delivered through the internet, for zero "transport" cost, from anywhere in the world.

The corollary of this disappearing middle class is the continuing bifurcation in the US of incomes into high and low income categories as we explored above. Highly skilled workers become more and more in demand in a globalized and technologically savvy world, and therefore command increasing incomes. Meanwhile, medium-skill jobs can easily be offshored while the very low-skilled jobs that require physical presence remain localized. This is the mechanism that drives the decreasing share of labor income. By definition, as the labor share of income declines, average wages will grow more slowly relative to GDP. In other words, most workers benefit less and less from growth. At the same time, the owners of capital or of exceptional skills capture a greater proportion of the returns from growth. Since affluent households own the lion's share of equities, this process becomes a negative feedback loop, accentuating the problem.

But where does that leave us now? All of the forces and trends we have identified result in there being a demand deficit and not just temporarily lower growth but ultimately a reduction in potential growth. Lower growth in turn means less investment opportunities in the US (hence the accumulation of cash on corporate balance sheets). The low-wage problem is therefore

[7] The Decline of the U.S. Labor Share", Elsby, Hobijn and Sahin 2013, Brookings Institution.
[8] "The Global Decline of the Labor Share", Karabarbounis and Neiman 2013, The Quarterly Journal of Economics (2014).
[9] " The Economist, January 18th 2014, "The Future of Jobs: The Onrushing Wave".

important and some measure of income redistribution might well lead to higher long-term growth rates by boosting demand and therefore increasing the opportunities for productive investment.

We add this to our headwinds to growth and adjust our expectations to a world of lower rates, lower inflation and indeed lower growth than in the past.

Conclusion

Much of what we have discussed in this letter refers to the hotly debated and highly politicized topic of income inequality. We avoided using the term “inequality” because we are not interested in discussing the political dimensions of this issue. We have instead analyzed the issue clinically, from the point of view of investors. We conclude that growing inequality is likely to result in lower growth throughout the developed world but most acutely in the US relative to history, with the result that we must lower long-term return assumptions in these geographies.

The argument may be summarized as follows:

- Low-wage occupations have been growing at the expense of middle-income occupations throughout the developed world but especially in the US for some time. This trend has accelerated through the latest recession and recovery.
- The low-wage phenomenon is a threat to growth past a certain point. A growing literature suggests that excessively low wages can impair human capital development and shorten economic expansions, thereby lowering aggregate demand and ultimately dis-incentivizing investment.
- There are a number of indications that the US has already reached a point where the low-wage phenomenon has affected growth. A large proportion of US households have incomes below estimated basic expenses suggesting that they do not have the means to optimally invest in education or consume nearly as much as they “should”. This is further reflected in the low degree of social mobility in the US relative to its developed world peers. In other advanced economies, equalized income distributions have often been “bought” at the cost of less efficient labor markets and higher taxes, resulting in significantly lower growth rates. As the size and therefore the political influence of less affluent households continues to grow, it seems likely that so will the calls for similar measures in the US with predictable impacts on growth.
- All of this begs the question of what has been driving these changes in labor and income dynamics in the developed world. While difficult to answer conclusively, there is strong evidence that globalization and technology are among the drivers in that developed market workers must compete increasingly with emerging market workers and labor-substitutes (i.e. machines).
- Concurrent with the increase in the low-wage phenomenon, the labor share of income has declined. Recent studies suggest that this has been driven by rising import competition in certain industries (globalization) and by a lowering in the cost of investment goods (technology). This is exactly what we would expect because in a globalized and increasingly technologically advanced world, highly skilled workers command greater wages, medium-skilled jobs are offshored and very low-skilled jobs that require physical presence remain localized. The combined effect is to decrease the labor share of income.
- As labor share declines, average wages grow ever more slowly relative to GDP so that lower-wage workers benefit less and less from growth while high wage workers who own the lion’s share of equities capture more, accentuating the low-wage problem in a negative feedback loop.
- With incomes so concentrated, the less affluent “under-consume” and the more affluent “over-save” resulting in an aggregate demand deficit which in turn reduces investment opportunities. The ultimate outcome is structurally lower growth, i.e. lower potential growth for the US.

Therefore, the low-wage phenomenon now presents a further headwind to growth to such an extent that perhaps some measure of income redistribution to alleviate poverty may well result in higher-long term growth and hence higher returns on investment. Yet given the history of measures to equalize incomes as for example in Europe, we are not sanguine on the prospects for a growth-positive implementation in the US.

Equity Market Valuations and Strategy

The growth trajectories of the US and global economies are key inputs in trying to determine asset allocation moves for 2014. Perhaps one of the most important asset allocation decisions facing most investors this year is whether equities in general should be emphasized in portfolios. With the previous macroeconomic discussion providing context, we discuss why understanding how earnings will evolve is more important than usual since developed market equity multiples are not presenting a clear "buy" signal at this point. In general, unless we see a 2σ- 3 σ event or outlier, we do not recommend taking dramatic, portfolio-reshaping action on a portfolio but rather stick to long-term policy, and patiently rebalance exposures according to asset allocation targets. However, it is important to also emphasize that we will suggest tending to "lean" gradually towards more reasonably priced opportunities.

We now analyze the S&P 500 and the DataStream Developed Europe Index (nearly identical to the EuroStoxx Index but without the data availability issues) to see how earnings, margins and P/E ratios have evolved and where they stand today.

S&P 500

S&P 500 earnings hit an all-time high in 2013, and analysts continue to forecast solid increases in earnings for the next 12-24 months. As Figure 8 below shows, S&P 500 earnings in 2013 exceeded the previous peak set in 2007 by 20%. Estimates forecast another healthy increase in earnings so that by 2015, the S&P 500 would be earning in excess of $130, a 20% increase from current levels. Much debate surrounds earnings with some arguing forcefully that earnings should mean revert. The question is to what level should they mean revert?

Looking at Figure 8, a shift clearly happened sometime in the early 1990s where earnings hit an inflection point and started rising at a different slope from that time onwards. Furthermore, the relationship with cyclically-adjusted earnings seems to have changed in the early 2000s – right when China joined the WTO. If twice before, the trend line has shifted, why could it not shift again? Also, trailing 12-month Bloomberg reported earnings have exceeded cyclically-adjusted earnings since 2004, except for a brief dip below cyclically-adjusted earnings at the depths of the 2008 crisis.

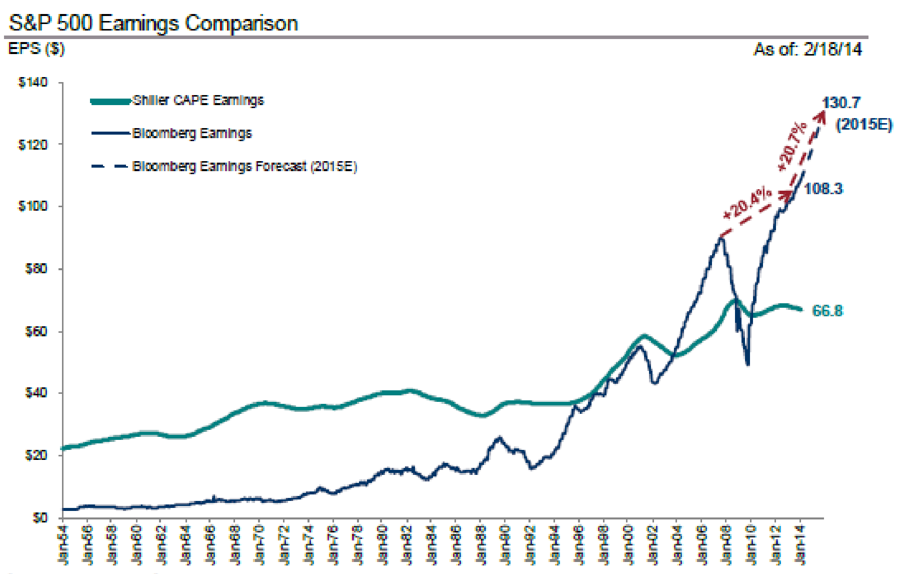


Figure 8: S&P 500 Earnings, Actual and Cyclically-Adjusted

There are simply too many unanswered questions to be able to definitively assert to what level earnings should revert. However, we can point to one solid fact. Figure 9 shows the net margin for companies in the S&P 500. First, despite earnings being at an all-time high by nearly 25%, margins are within historic norms at approximately one standard deviation from their historic median. Second, and most importantly, there has *never* been a period of significantly worsening margins during a period of accelerating GDP growth. Figure 9 clearly shows recessions as the key driver to margin compression. It would be an extraordinary event for margins and therefore earnings to fall in 2014.

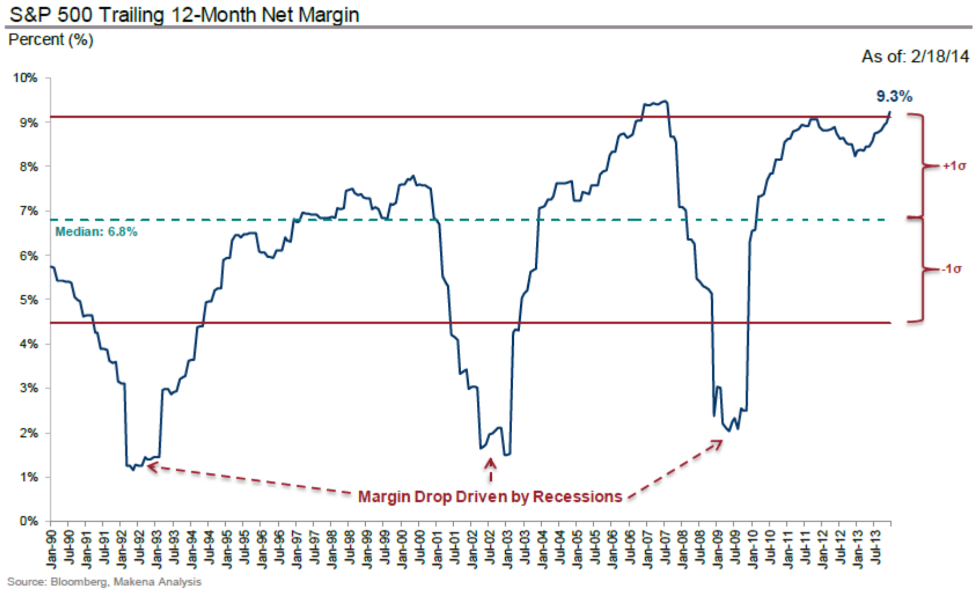


Figure 9: S&P 500 Corporate Margins

Finally, looking at multiples, Figure 10 below shows that the cyclically-adjusted P/E ratios are above their long-term median and in-line with the previous cyclical peak. Trailing P/Es on the other hand are only slightly above their long-term trend. Therefore, from a multiples perspective, the S&P 500 looks fair to overvalued – *unless forward forecasted earnings materialize,* which imply a forward multiple of ~14x today.

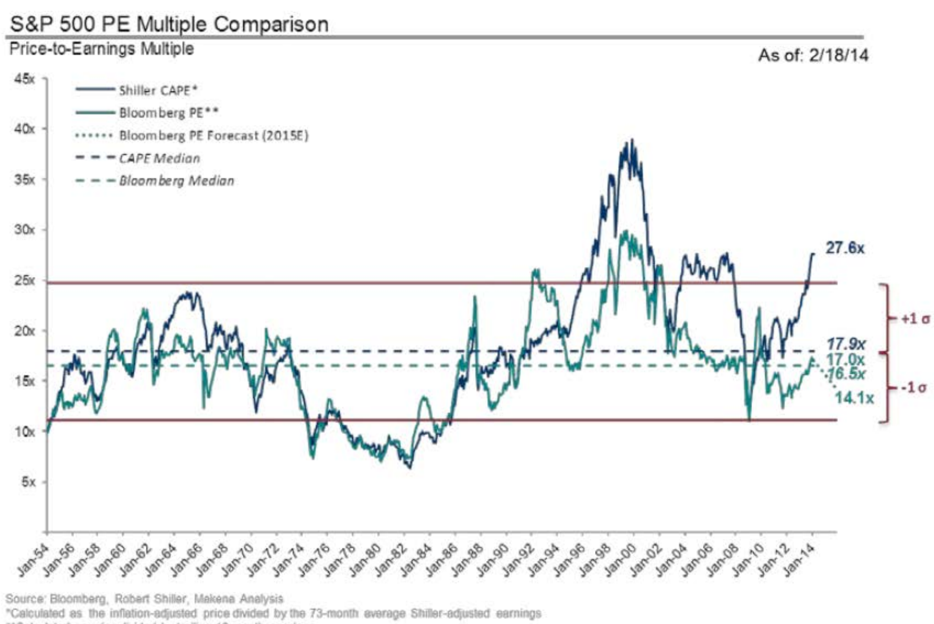


Figure 10: S&P 500 Cyclically-Adjusted, Trailing, and Forward P/E Ratios

An Aside on Cyclically Adjusted P/E Ratios (CAPEs)

As trailing and cyclically-adjusted P/E Ratios have continued to diverge for US markets, essentially contradicting each other, debate has arisen over the usefulness of the CAPE. We believe that both measures and many others besides are important inputs for evaluating markets, but in attempting to reconcile trailing P/Es vs CAPEs into a coherent view, we believe it is important to be mindful of the criticisms of CAPE.

The essential CAPE criticism is the fact that it has spent nearly the entirety of the last 25 years well above its long-term mean. Indeed, it only fell to its long-term mean in the depths of the financial crisis and the dot-com crash before quickly rebounding. This fact calls into question the validity of the mean-reverting assumption under "normal" market conditions. If CAPE doesn't really revert to its mean except during a market crash, is it a good leading indicator or useful signal? Several factors have been identified that could cause a secular increase in multiples, arguing for a higher CAPE mean going forward (and therefore arguing that the current mean of ~18x is too low):

I. *Changes in GAAP accounting rules governing Goodwill starting in the 1990s and culminating with FASB 142 in 2001 have increased downside earnings volatility making long-term comparisons invalid.* Previously, Goodwill was depreciated straight-line, but following FASB 142, companies have been required to test not just Goodwill but all intangible assets for impairment annually. As a result, during down quarters, corporations have been forced to write down assets, but are unable to "write-up" assets in good times. Given the natural volatility of markets, this leads to larger write-downs in quarters where the markets are down, depressing long-term average earnings. This of course means higher P/E multiples.

II. *There has been a long-term trend towards share repurchases as the preferred return of capital policy as compared to dividends.* When a company purchases shares, earnings per share rise resulting in an increase in share price for that company assuming a constant P/E ratio (a conservative assumption). The greater the proportion of earnings devoted to share repurchases relative to dividends over a period, the higher the share price will be relative to if the company had chosen dividends. When computing CAPE, the current price is used which has been "most inflated" by repurchases, but the average of earnings over the period is used as the denominator, resulting in a higher multiple. The shift towards repurchases therefore arithmetically inflates the CAPE.

III. *Changes in the structure of the global economy have enabled a secular multiple expansion.* The reasons given are varied and include but are not limited to: advancements in management techniques, technological advancements, the reduction of major tail risks in the form of policy errors (as with those that resulted in the Great Depression and the 1970s stagflation), the long-term decrease in interest rates, globalization which has lowered costs and diversified revenue bases, and changes in sector composition of the economy (e.g. tech companies with high margins).

Any or all of the aforementioned developments could plausibly give rise to an increase in multiples, but it is difficult if not impossible to prove causation aside from *ex-post* observations. Furthermore, whether many of these changes have really occurred and/or are likely to continue remains open to debate.

DataStream Developed Europe

By contrast, the pan European index is more clear cut. First, we can see in Figure 11 below that earnings have fallen by roughly a quarter from their peak, and are now roughly at par with cyclically-adjusted earnings.

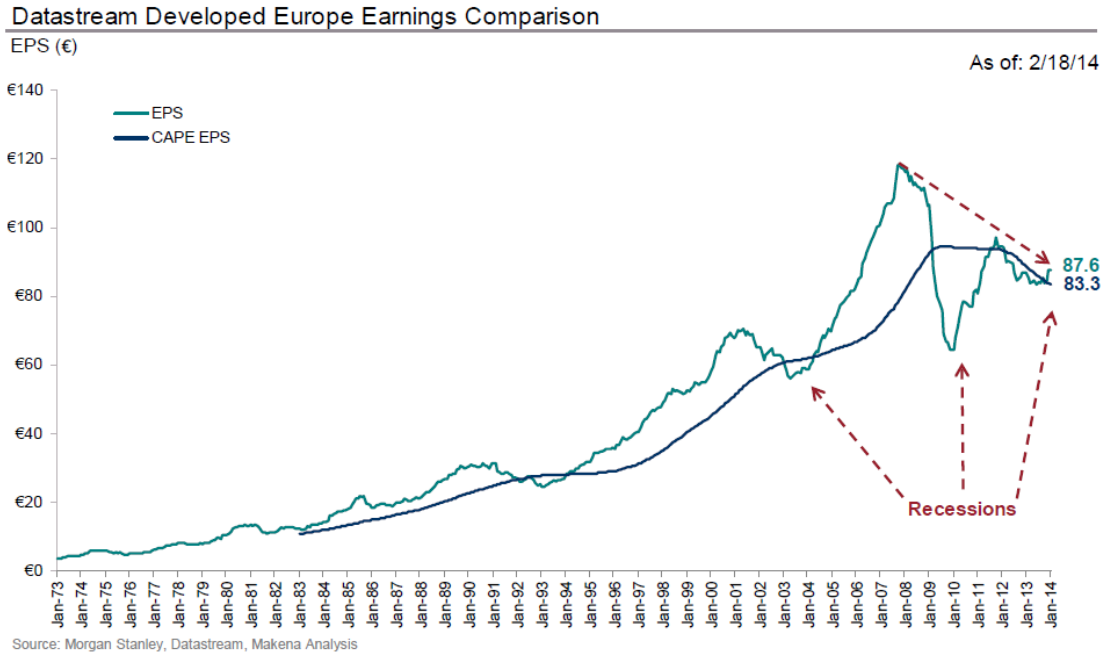


Figure 11: Developed Europe Earnings

Secondly, we see in Figure 12 below that margins have fallen and are in-line with their long-run averages[10]. Given the expansion underway in Europe, modest as it may be, one could expect margins to start gradually increasing.

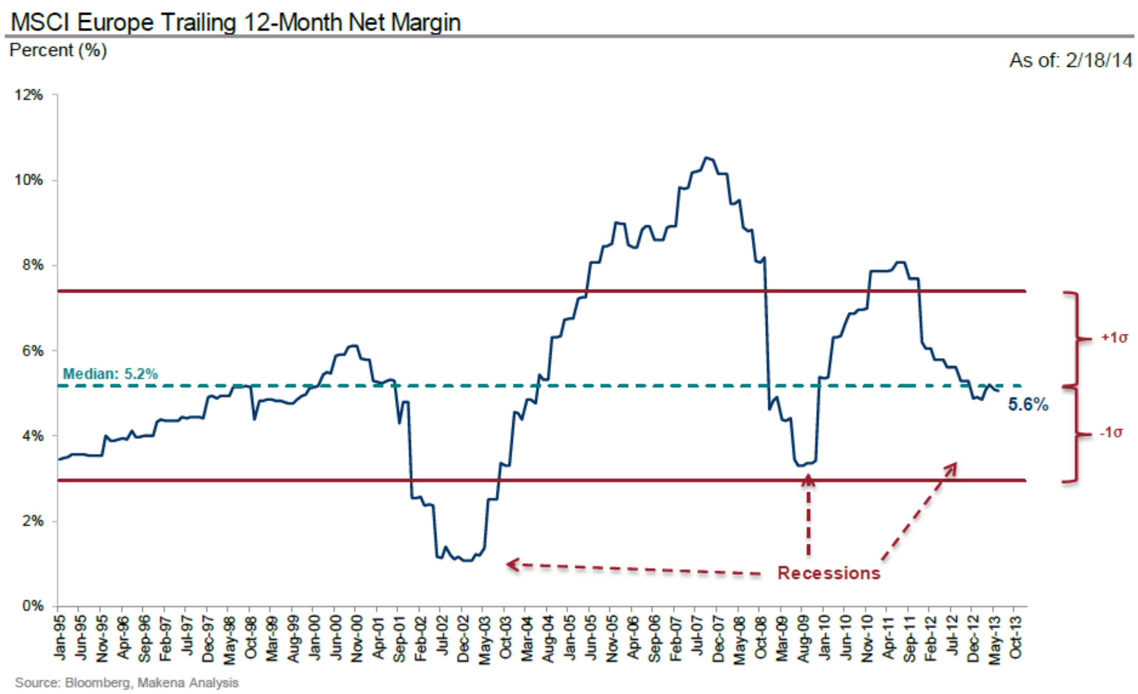


Figure 12: Developed Europe Corporate Margins

[10] Please note that due to data licensing and availability issues we had to use MSCI Europe for margin data and Datastream Developed Europe elsewhere; however, both indices are broad Europe indices representing enough companies that statistically the results should be reasonable proxies for one another.

Thirdly, in Figure 13 below, we see trailing 12-month P/E ratios slightly above and cyclically-adjusted P/E ratios roughly ½ standard deviation below their long-term averages. While both metrics are showing that developed Europe is fairly valued to slightly "cheap", neither are more than approximately half a standard deviation from their long-term trends. As we mentioned above, anything less than a 2 σ outlier targets.

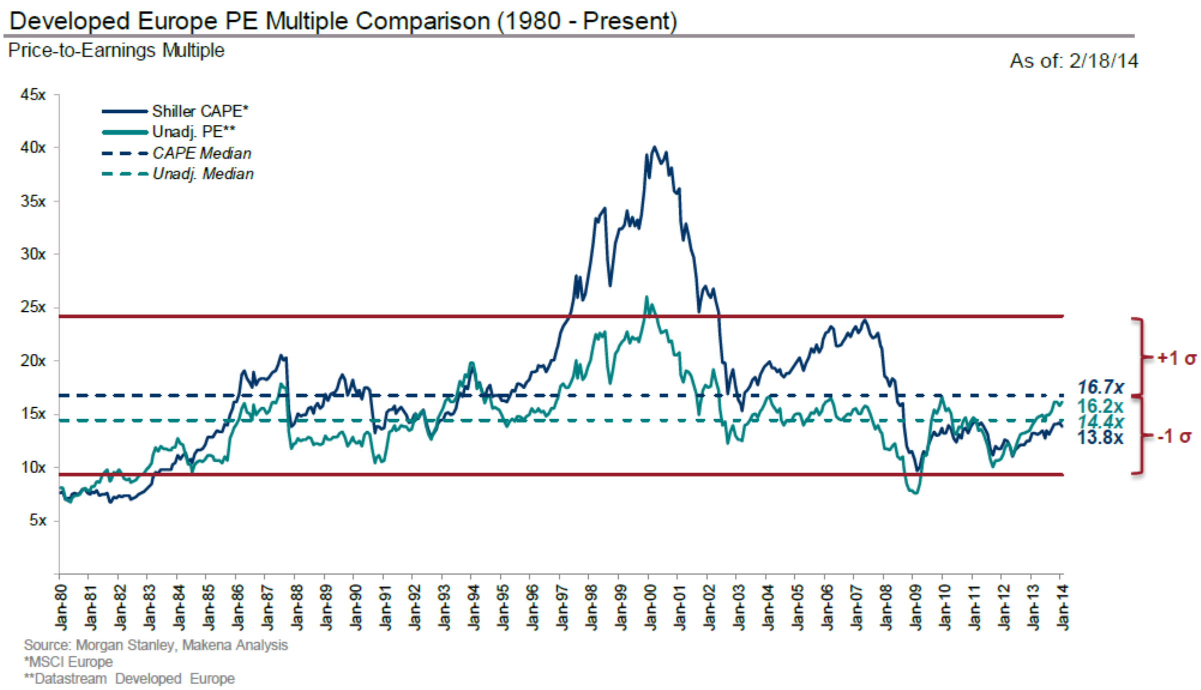


Figure 13: Developed Europe Cyclically-Adjusted, Training, and Forward P/E Ratios

Emerging Markets

Finally, let us briefly look at emerging markets. P/E ratios are below their long-term averages on both a trailing 12-month and cyclically-adjusted basis and have been for some time. In keeping with our previous letter, we maintain that the greatest future economic growth lies in EM and in particular in the development of services and domestic activity within EM economies. The animal spirits of global investors may mask this through depressed valuations, but ultimately we expect the value to be reflected in asset and in particular equity markets. This is not to say that the structural problems in many EM countries are immaterial, but rather, they are both the hurdles and opportunities that present themselves to investors.

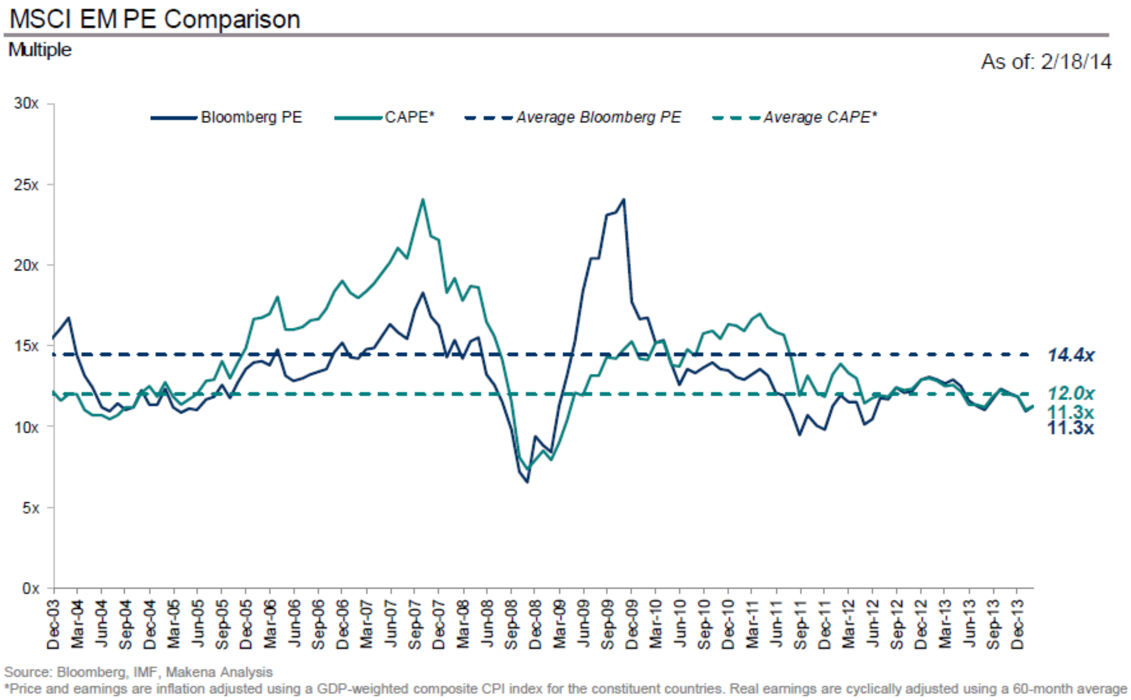


Figure 14: Emerging Market Cyclically-Adjusted and Trailing P/E Ratios

Where does all this analysis leave us? On a fundamentals basis, summarizing the data above,

For the S&P 500:

i. Margins and multiples are high but at most 1 to 1.5 standard deviations away from historic norms
ii. Earnings are high and projected to dramatically increase from here–if one believes these forecasts, the S&P 500 on a forward basis is compelling and probably a "buy"
iii. Therefore the key question is determining how S&P 500 earnings will evolve. Tying back to our earlier analysis of the composition of employment growth in the US economy, it seems safe to say that for now, S&P 500 companies should not face labor cost pressures in the US. On the demand front, we have seen US consumers grow demand even when unemployment was significantly higher than it is now, so there is no reason to believe that demand will fall dramatically in the near-term. If there is one constant in this world, it is the propensity of the American consumer to consume. Therefore, barring any macroeconomic shock, it seems reasonable that earnings will continue growing in the near term. However, whether earnings will meet analysts' expectations is anyone's guess.

For Europe:

i. Margins are in line with historic averages
ii. Earnings have fallen to cyclically-adjusted levels
iii. Trailing multiples are slightly above and cyclically-adjusted multiples well below their historic averages
iv. In Europe, we believe the issue facing corporations is falling demand as a result of at best anemic growth across most of Europe. In such a scenario, it is difficult to know when margins and earnings will stabilize. Given that earnings have corrected to cyclically adjusted levels, this seems like a reasonable level from which to continue dollar cost averaging into the market. Furthermore, export-oriented companies face a combination of weakening input costs (labor) and increasing prices for their goods (there is positive global inflation), which should bolster margins for this subset of "quality" companies.

Finally, on top of the fundamental arguments we have made above, there is much talk surrounding the "great rotation" from bonds into equities. This is a theme we highlighted during our October 2012 board meeting. If one were to simplify investing to two basic choices, equities or bonds, then equities remain the clearer choice for the long run. While it may be that bonds[12] could still rally significantly if a deflationary scare suddenly appears, bonds are still at high valuations relative to forecasts of future yield levels, and therefore could deliver negative returns. So if the choice is between adding bonds that have potentially negative returns versus adding equities that seem more modestly valued, especially in Europe and EM, the choice seems straightforward for now.

The Partners of Makena Capital Management[11]

Analysis by
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IMPORTANT NOTES AND DISCLOSURES