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The University of Iowa Center for Advancement (UICA) Quarterly Investment Report – September 30, 2024

Overview

Attached you will find the investment performance report for the period ending September 30, 2024. The Federal Reserve cut interest rates by 50 basis points in September, indicating it believes inflation has been tamed. Central banks in Europe, England, and China also reduced interest rates, leading to stock market gains across the globe. Fixed income markets also rallied as rates fell across the yield curve and the 26-month inversion of the 10-year/2-year Treasury spread came to an end.

The Long-Term Pool (LTP) returned 4.1 percent for the quarter, 16.6, 6.6, 9.0, and 7.3 percent respectively for the one-, three-, five-, and 10-year periods.

Global Equity

The global equity composite returned 5.3 percent during the quarter, 23.5 percent over the past year and an annualized 8.6, 13.5, and 10.7 percent over the past three-, five- and 10-year periods.

Since the depths of the pandemic there have been three persistent trends in stock market performance: 1) US stocks have outperformed non-US developed markets and emerging markets, 2) US growth stocks have outperformed US value stocks, and 3) US large cap has outperformed US small cap. All three of those trends reversed in the quarter. US markets finished the quarter at all-time highs, but small cap, value stocks led the way. Emerging markets outperformed their developed peers as Chinese markets rallied after the People's Bank of China announced the largest stimulus package since the Global Financial Crisis.

While private equity exits continue to be depressed, deal activity has begun showing signs of resurgence, buoyed by an accommodative central bank. These deals will take some time to hit our private equity portfolio as exits, but we have seen more activity in capital calls. The fundraising markets appears strong on the surface, but it is taking longer for funds to raise capital and larger funds continue to dominate as smaller funds struggle to gain traction. Performance has remained strong in private equity, though a bit muted from the halcyon days of 2021.

Global Fixed Income

The global fixed income composite returned 1.4 percent during the quarter and 11.1 percent for the trailing year. Over longer time periods the composite increased an annualized 2.9, 3.9, and 3.8 percent for the three-, five- and 10-year periods. The Fed's first rate cut in four years was a tailwind to credit and rate sensitive strategies in the quarter. Credits spreads moved toward historic lows in the risk on environment. Markets predict multiple cuts in 2025.

Real Assets

The real assets composite returned 1.4 percent for the quarter, -3.9 percent for the one year, and an annualized 1.4, 3.5, and 3.8 percent over the past three-, five-, and 10-year periods. Real estate property prices continue to decline, but REITs had strong performance in the quarter. Lower interest rates should ease some of the financing pressure on properties, but short-term rates are falling faster than 10-year Treasuries which have a large affect on financing rates. Record US oil production continue to increase the supply, while oil demand growth lags supply growth. Real asset performance has struggled as inflation falls.

Diversifying Strategies

The diversifying strategies composite returned 1.9 percent for the quarter, 6.1 percent for the one year, and an annualized 3.5, 2.5 and 3.0 percent over the past three-, five-, and 10-year time periods. Managed futures performance remains strong year-to-date but fell in the quarter. The asset classes performance is buoyed by royalty strategies.

Conclusion

The trends that we have seen for the past two fiscal years persisted in the first quarter. US equities continue to outperform, and the once high-flying venture capital space is suffering from lack of distributions and price rationalization. Buyout realizations are also below what the historical models predict, but our experience is that there have been liquidity events beyond continuation vehicles. Falling interest rates should relieve pressure on real estate and help private capital liquidity, but it takes months to market and sell companies so those results will not be seen until 2025. While we wait, we have ample liquidity to meet capital calls and our spending needs. We feel that the portfolio is positioned appropriately to take advantage of the current market environment and to meet our return objectives into the future.

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