

CalPERS Trust Level Review Investment Review

Period Ending June 30, 2019

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Investment Committee
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Outlook – risks and opportunities

- It is not clear that the easing of financial conditions here and abroad will deliver improved growth.
- Optimists say that a China trade deal would unlock pent-up activity, supplemented by a US budget deal.
 - But any incremental trade ‘truce’ is unlikely to fully allay concerns that have inhibited investment.
 - Investment is crucial, since long business cycles have depleted supplies of skilled labor.
- Thus, whilst economic growth and risk market returns are not highly correlated, this does not seem to be a promising environment for aggregate returns in the period ahead.
- The Fed has started to cut interest rates, history shows that subsequent asset price performance depends on whether that action proactively prolongs the expansion OR is too late to prevent a recession.