



# NEPC MARKET OUTLOOK

INVESTING IN A BEAR MARKET

JULY 20, 2022



PROPRIETARY & CONFIDENTIAL

# SPEAKERS



**Phillip Nelson, CFA**

Partner, Director of  
Asset Allocation



**Joshua Beers**

Principal, Head of Private  
Equity Investments

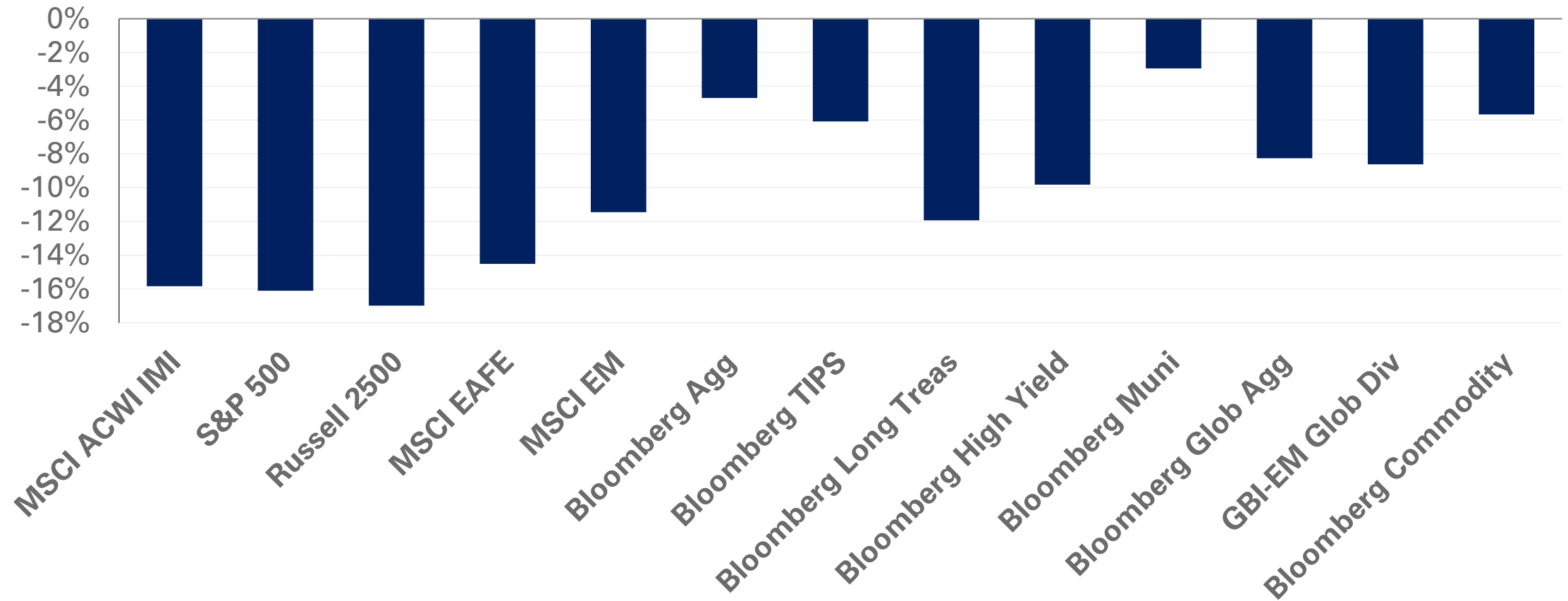


**Jennifer Appel, CFA**

Investment Director,  
Asset Allocation

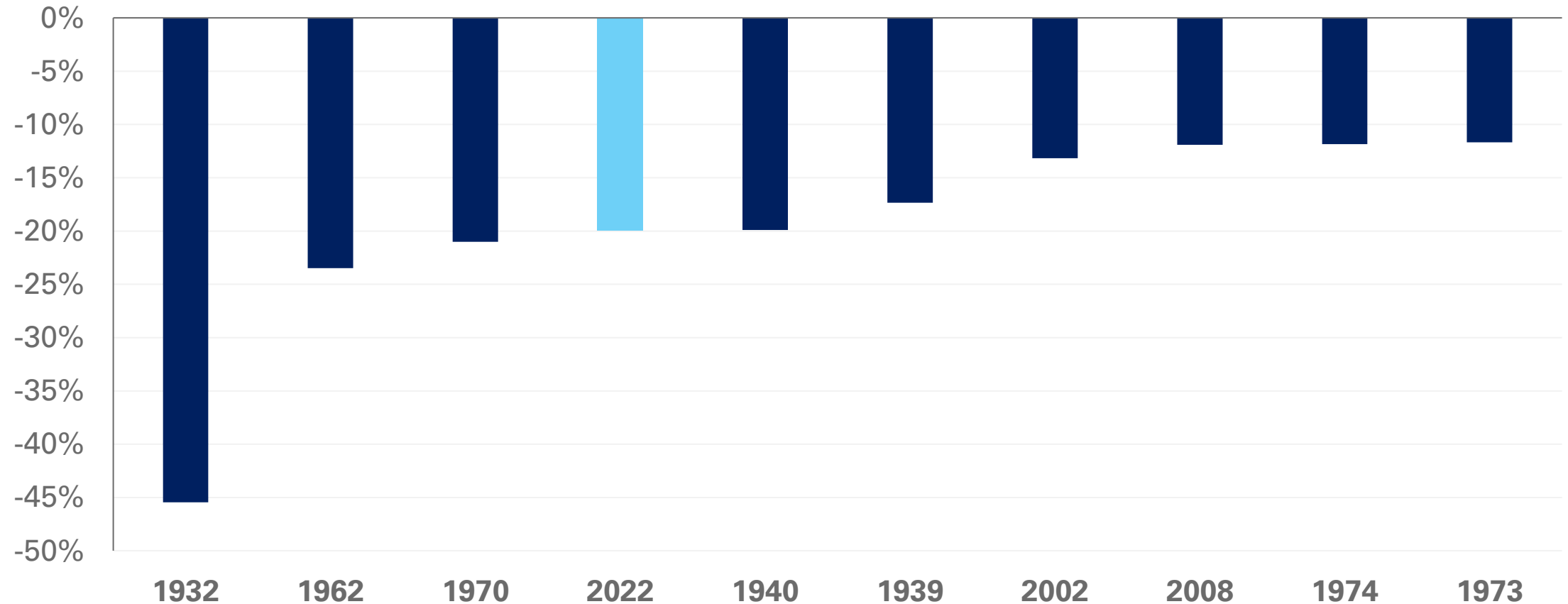
# GLOBAL MARKETS BROADLY DECLINED

## QUARTERLY TOTAL RETURNS



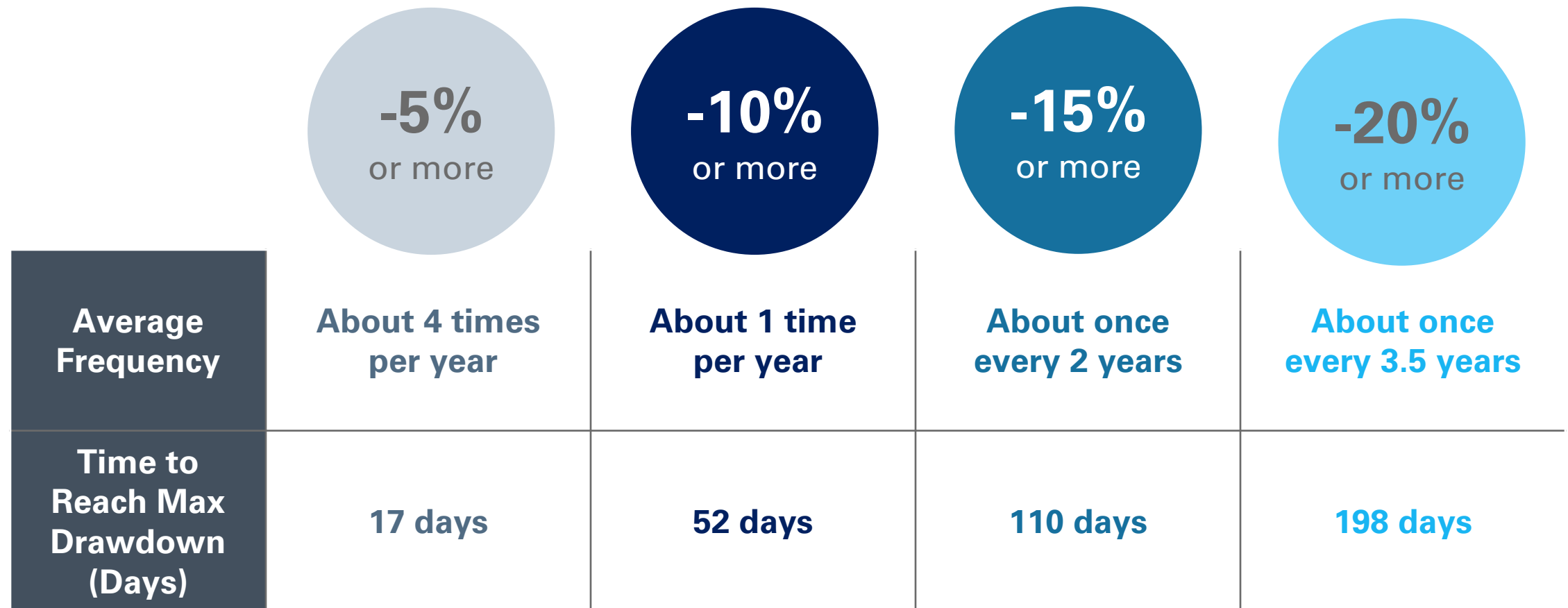
# WORST START FOR THE S&P IN OVER 50 YEARS

TOP 10 S&P 500 LOSSES IN FIRST HALF OF THE YEAR



# U.S. MARKET CORRECTIONS IN CONTEXT

S&P 500 INDEX (1948-PRESENT)



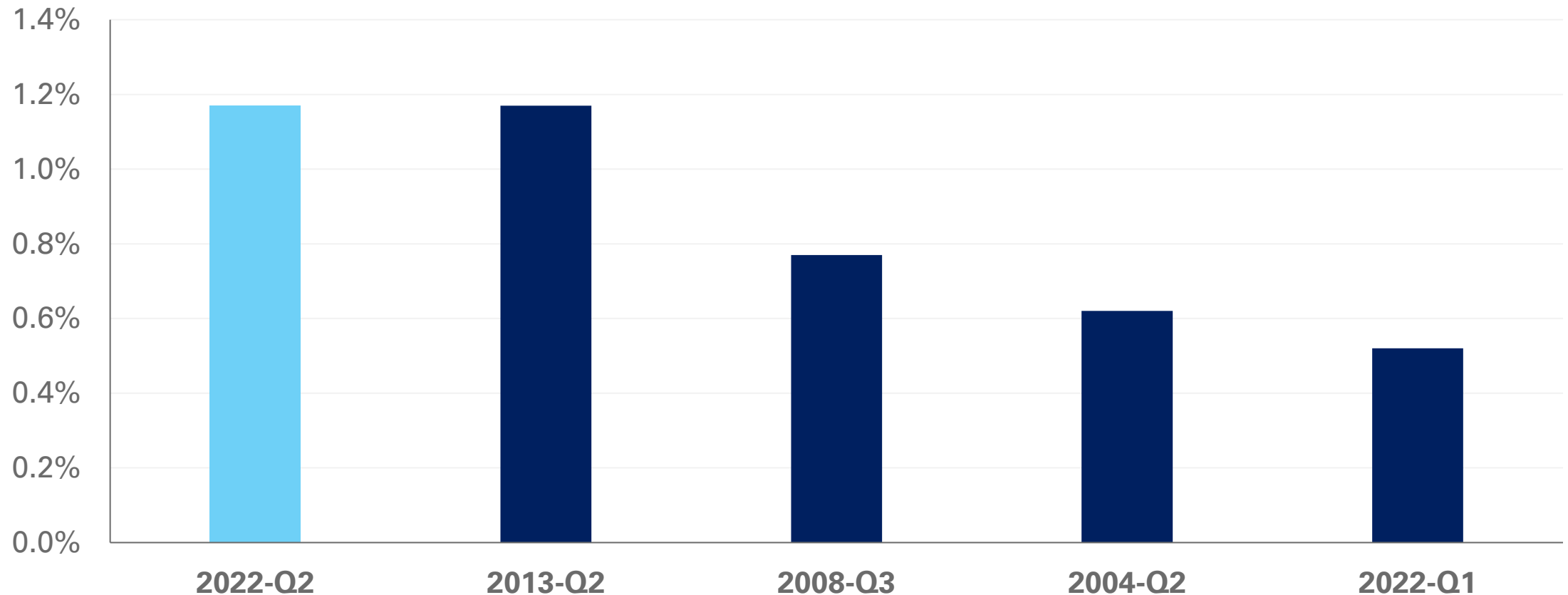
# BEAR MARKETS CAN BE LENGTHY

## LENGTH AND DEPTH OF S&P 500 BEAR MARKETS

Start	End	Length of Bear Market (Months)	Length of Recovery* (Months)	S&P 500 Decline
01/03/2022	?	6*	?	-22%*
02/19/2020	03/23/2020	1	5	-34%
10/09/2007	03/09/2009	17	59	-55%
03/24/2000	10/09/2002	31	80	-47%
08/25/1987	12/04/1987	3	20	-34%
11/28/1980	08/12/1982	21	3	-27%
01/11/1973	10/03/1974	21	69	-48%

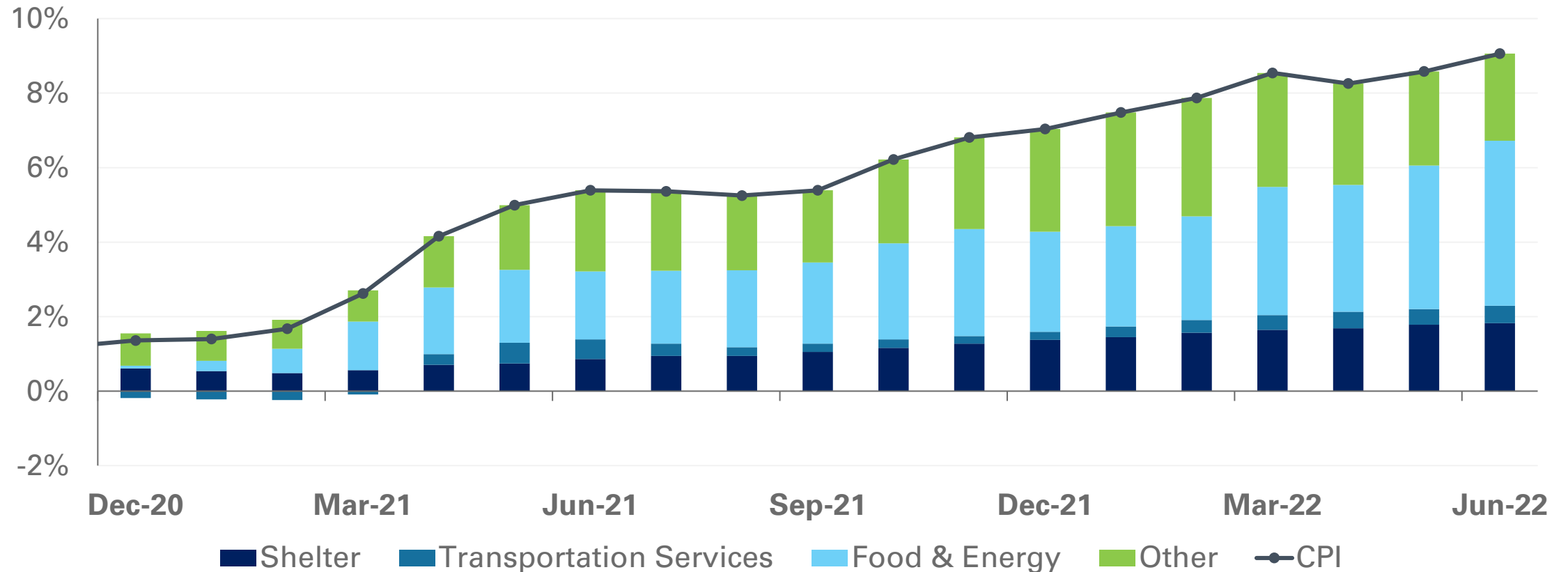
# REAL YIELDS SURGED DURING THE QUARTER

## TOP 5 QUARTERLY CHANGE IN 10-YEAR TIPS REAL YIELDS



# INFLATION REMAINS ELEVATED

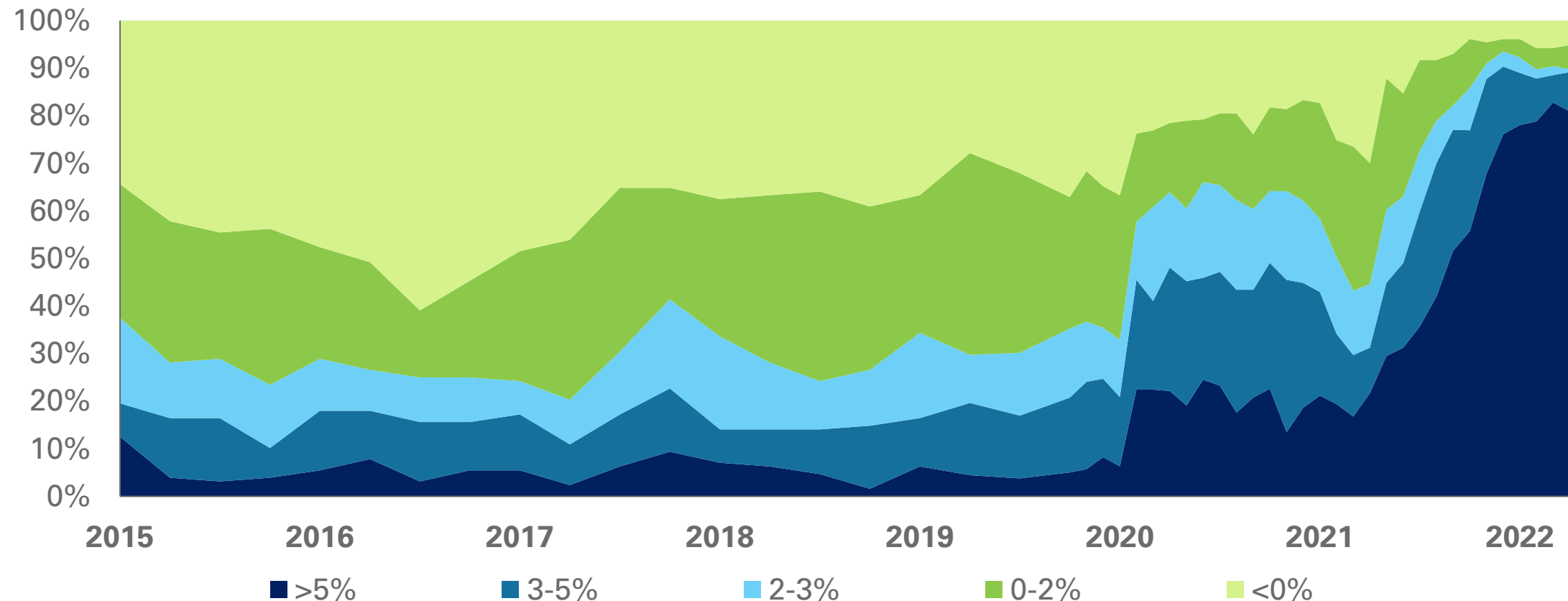
## ANNUAL U.S. CPI-U CHANGES





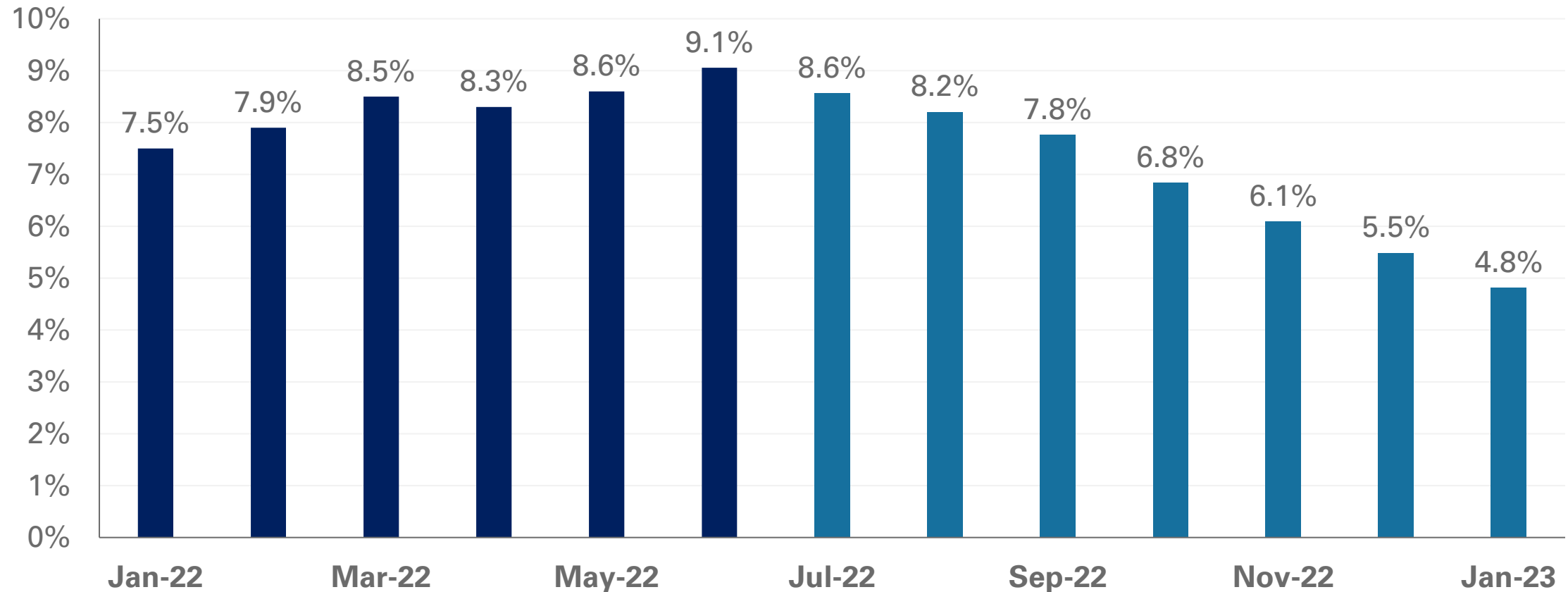
# MANY CATEGORIES ARE DRIVING PRICE PRESSURES

## U.S. CPI COMPONENTS BY ANNUAL PERCENTAGE CHANGE



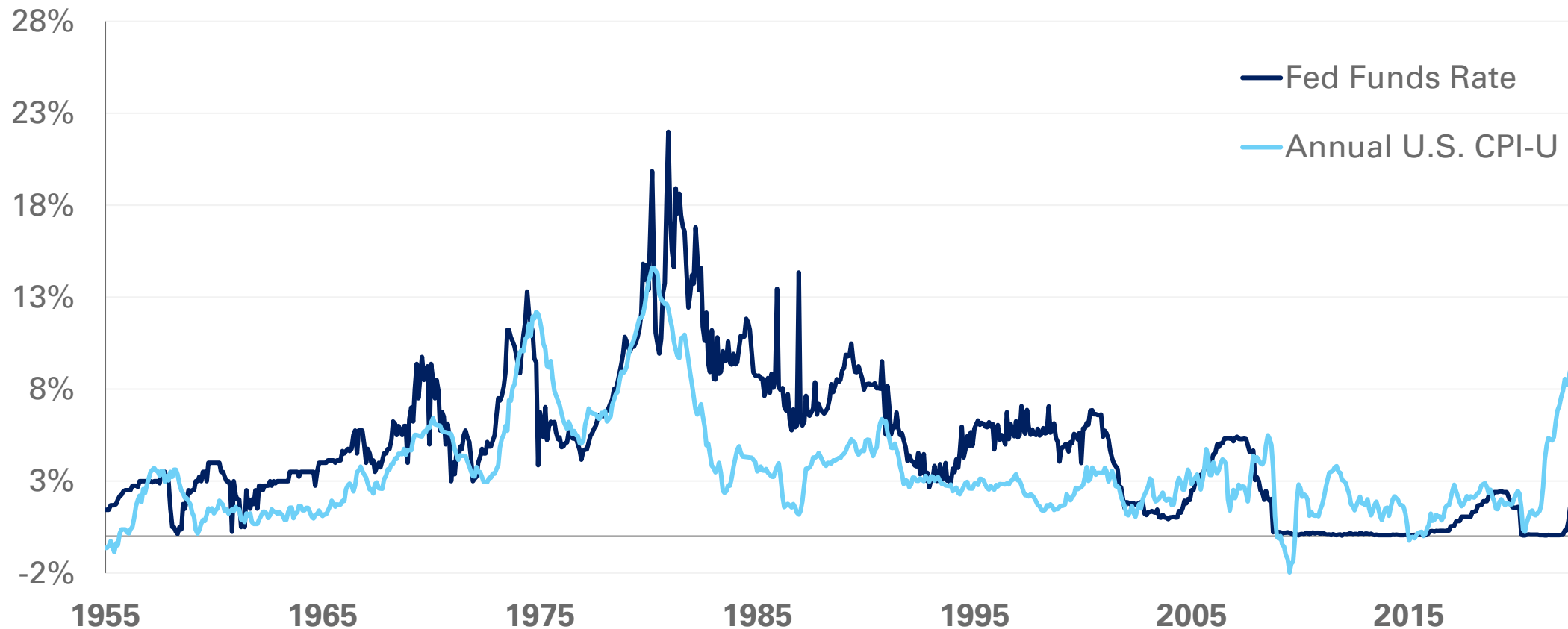
# INFLATION WILL REMAIN ELEVATED INTO 2023

PROJECTED CHANGE IN U.S. CPI WITH 0% MONTHLY CHANGE



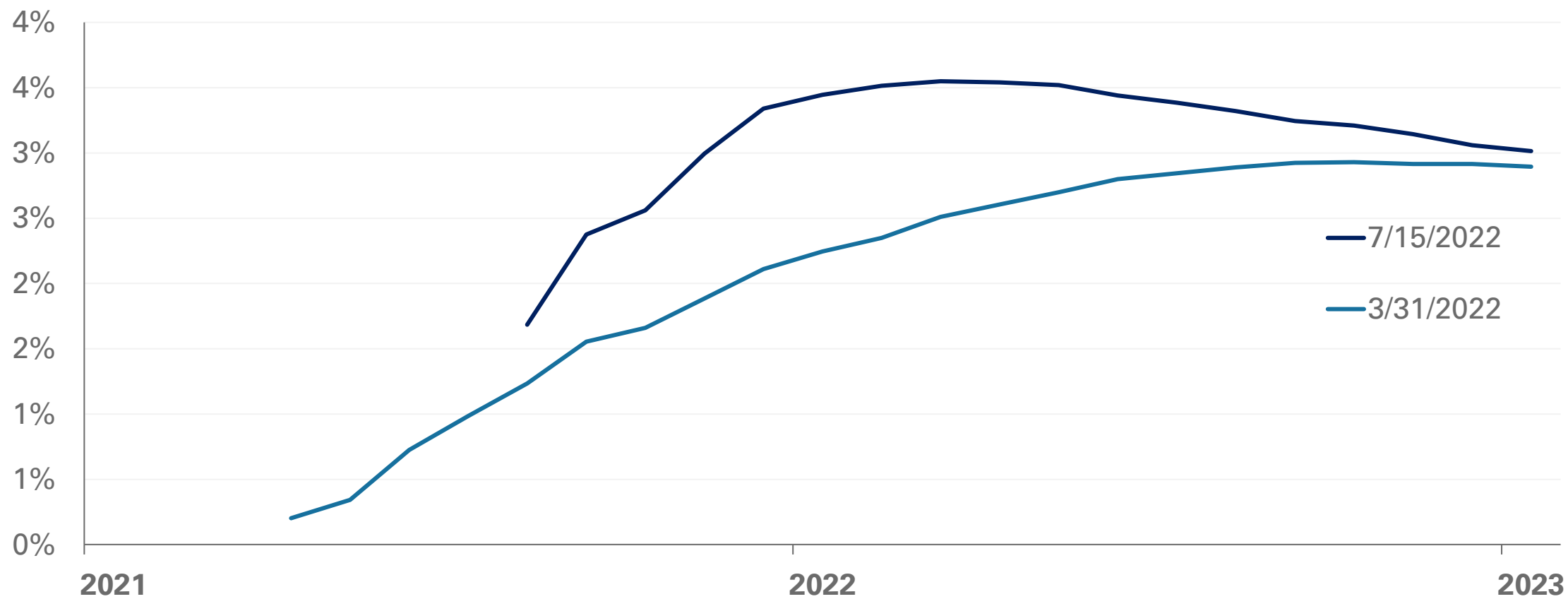
# INFLATION AND FED FUNDS NEED TO CONVERGE

## HISTORICAL RELATIONSHIP BETWEEN FED FUNDS AND INFLATION



# PRICING ANTICIPATES TIGHTER NEAR-TERM POLICY

## FEDERAL FUNDS FUTURES





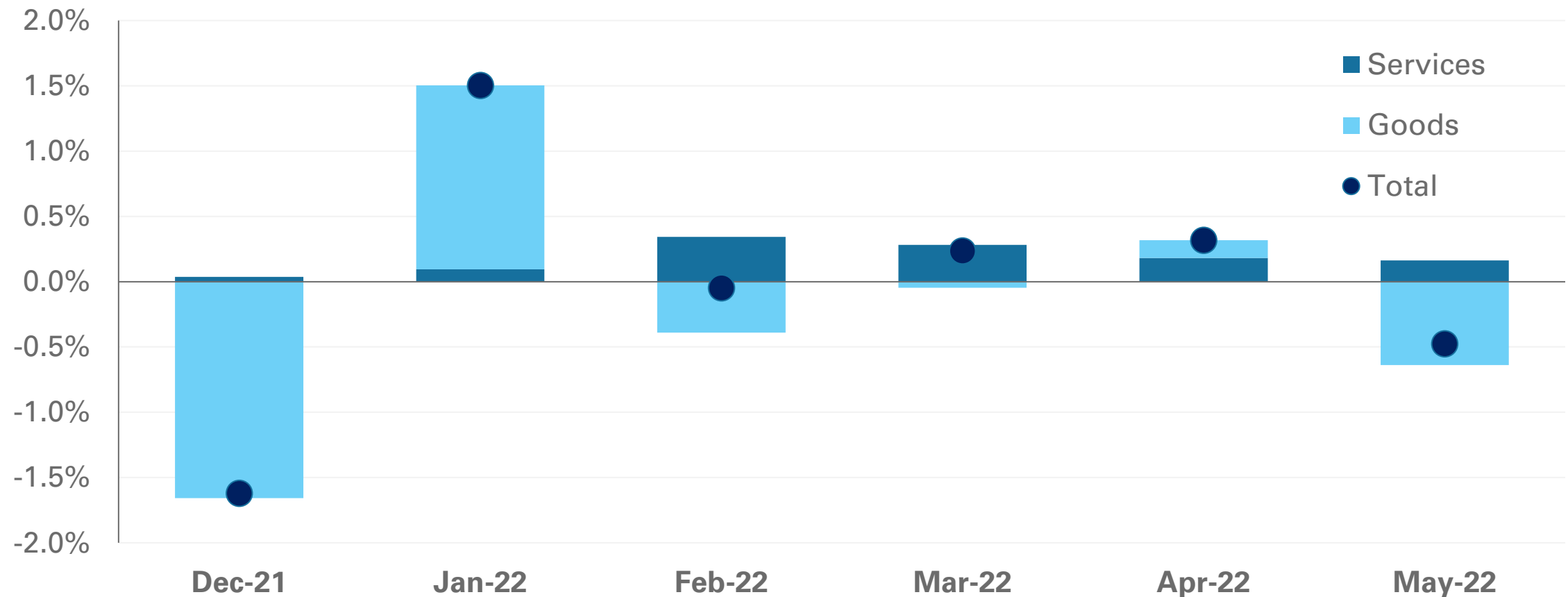
# ECONOMIC CROSSROADS



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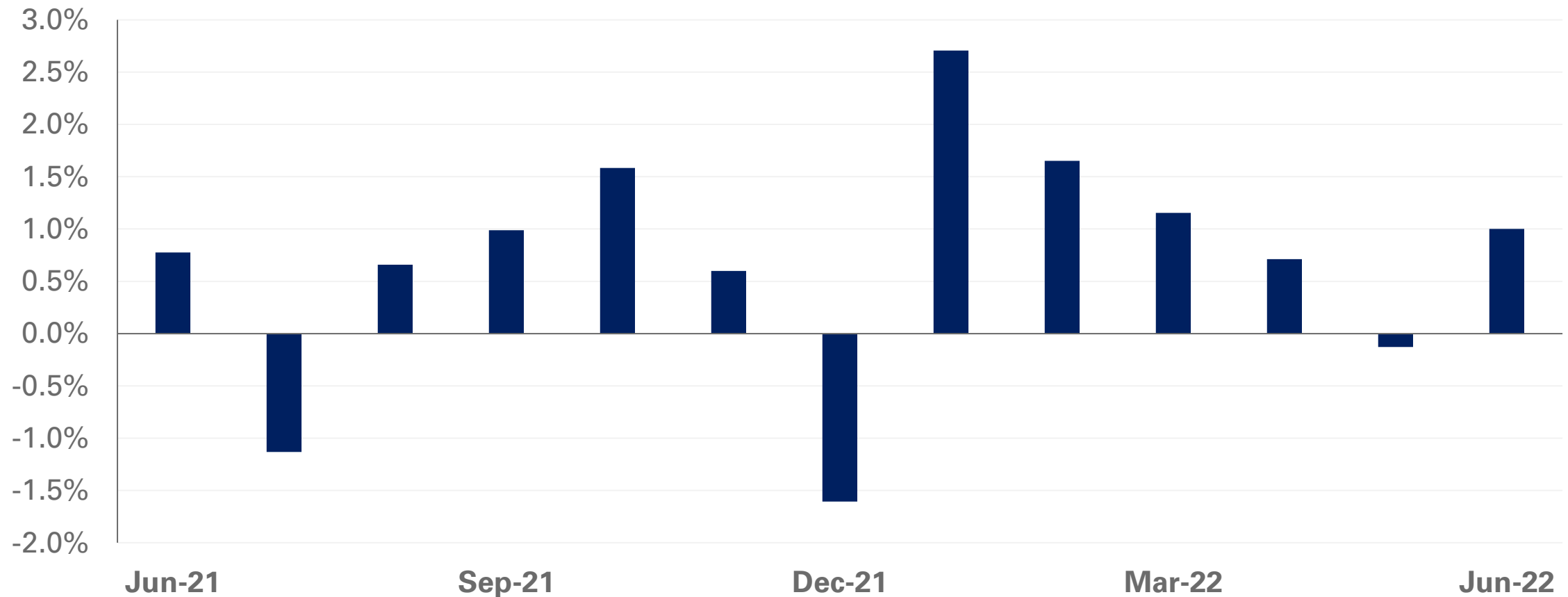
# SPENDING ON GOODS DECLINED

## MONTHLY CHANGE IN PERSONAL CONSUMPTION EXPENDITURE



# CONSUMPTION REMAINS POSITIVE

## MONTHLY NOMINAL U.S. RETAIL SALES GROWTH



# WAGE PRESSURES ARE ELEVATED

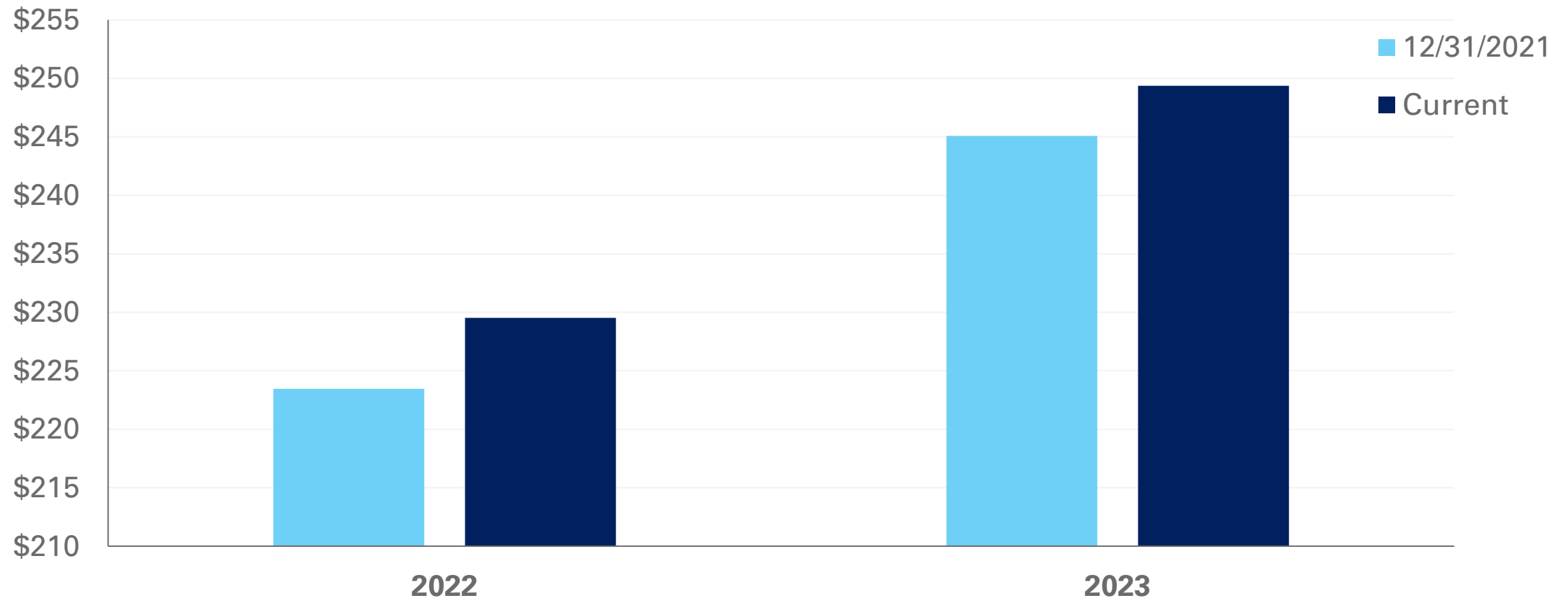
THREE-MONTH MOVING AVERAGE OF MEDIAN WAGE GROWTH





# EARNINGS ESTIMATES REMAIN ELEVATED

## S&P 500 EARNINGS PER SHARE ESTIMATES



# SHIFTING INVESTMENT REGIMES ARE POWERFUL

## POTENTIAL POLICY AND ECONOMIC OUTCOMES

		Policy Response	
		Accommodative	Tight
Inflation Outcome	High	Fed lets the economy “run hot” Nominal growth and liquidity flourish Bullish, but potential for <b>asset bubbles</b>	Fed unable to control inflation Rising rates and a <b>stagflation regime</b> Assets reprice, look to short-term debt
	Low	Transitory inflation was real Rates stay low as inflation subsides <b>Bullish for growth and public equity</b>	Fed fights inflation successfully Tighter policy challenges growth <b>Represents a normal economic cycle</b>

# PORTFOLIO POSITIONING



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# PORTFOLIO POSITIONING VIEWS

We encourage an **underweight risk posture** as our outlook reflects concerns relating to earnings growth and inflation dynamics

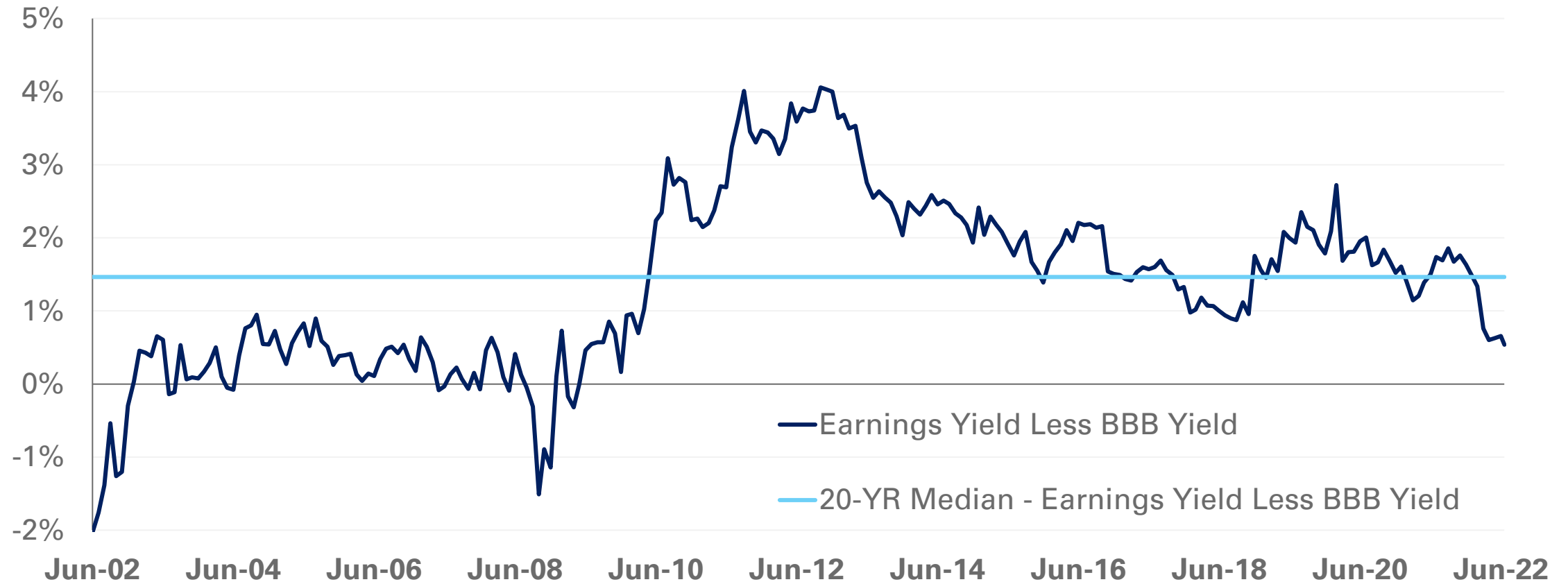
Our **conviction remains high** regarding the addition of value exposure to U.S. large-cap equity and the use of active global equity strategies

Despite the challenging environment, **we encourage maintaining adequate portfolio liquidity** with safe-haven fixed income exposure

Look to **build exposure to short-term investment grade credit** as higher yields boost our outlook relative to risk assets

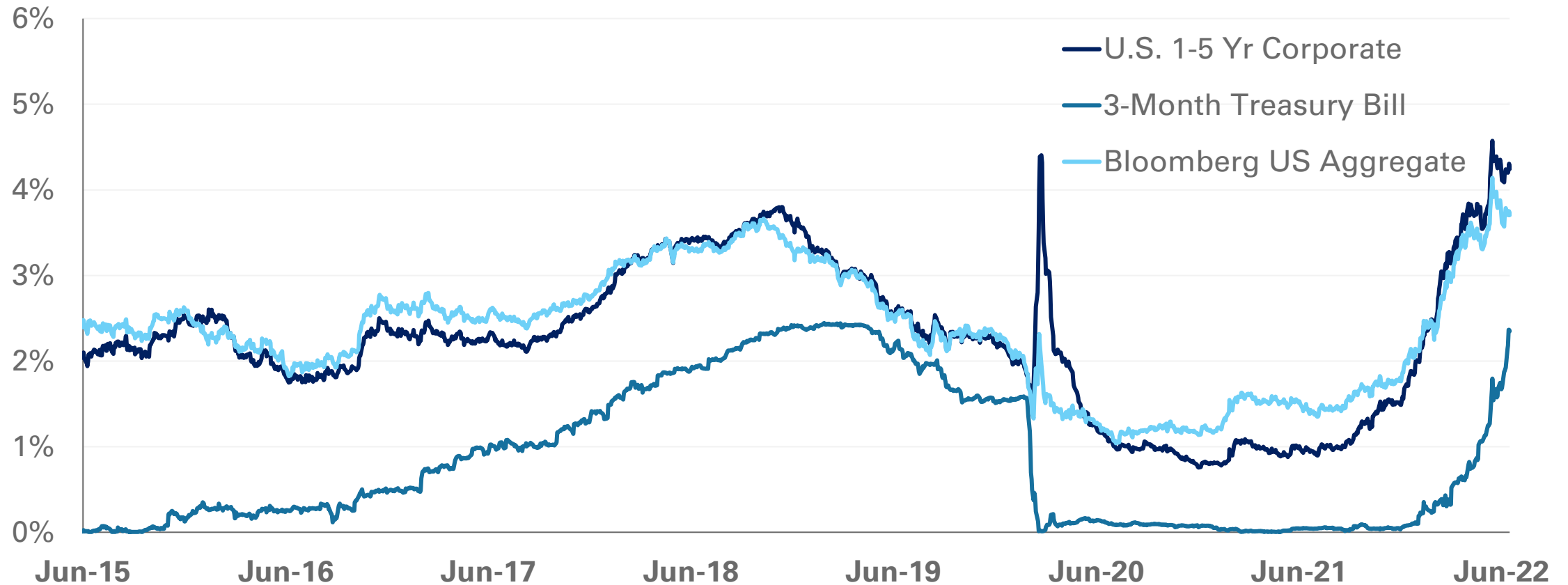
# EQUITY RISK PREMIUM IS SHIFTING LOWER

S&P 500 EARNINGS YIELD LESS BBB BOND YIELD



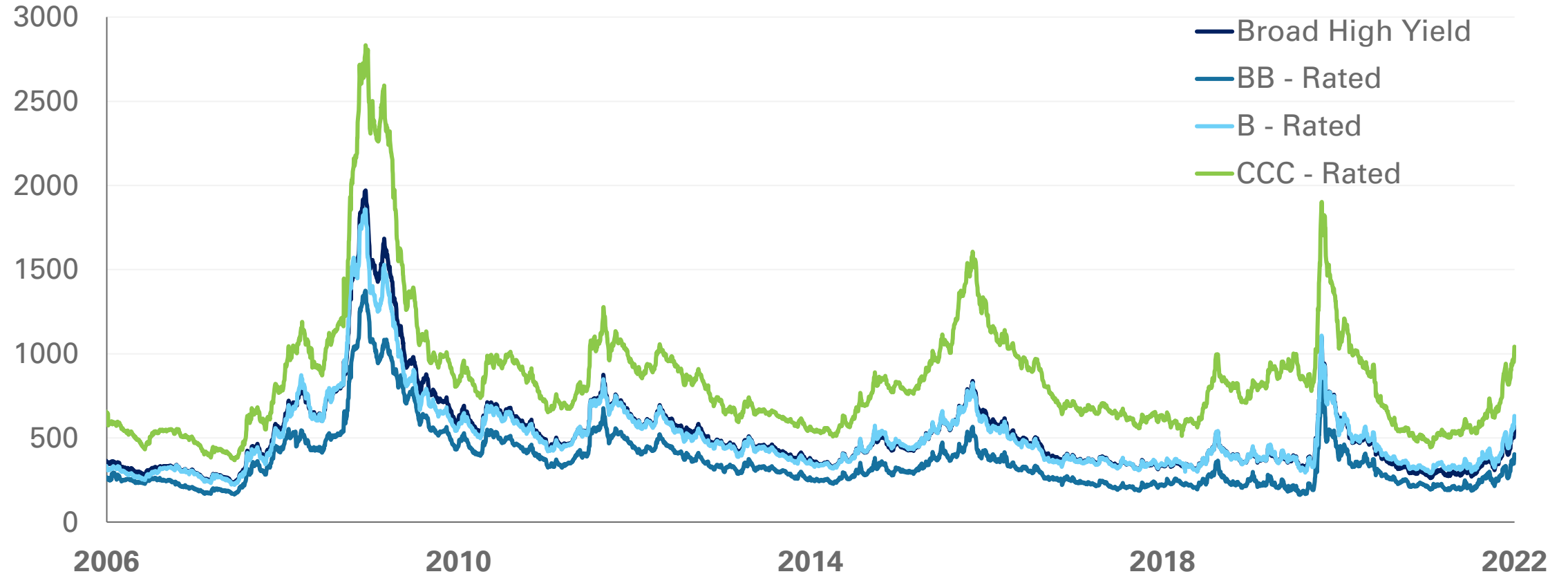
# BOND YIELDS HAVE MOVED HIGHER

POTENTIAL FED HIKES ARE BEING PRICED INTO THE MARKET



# KEEP AN EYE ON SPREADS AS AN OPPORTUNITY

## U.S. CORPORATE HIGH YIELD SPREADS



# ADD U.S. LARGE-CAP VALUE EXPOSURE

The **addition of U.S. Large Cap Value** exposure is designed to address total portfolio risk and a narrowing of the equity risk premium

With “**stickier**” **inflation and higher interest rates**, we are concerned the S&P 500 and the portfolio will continue to see headwinds

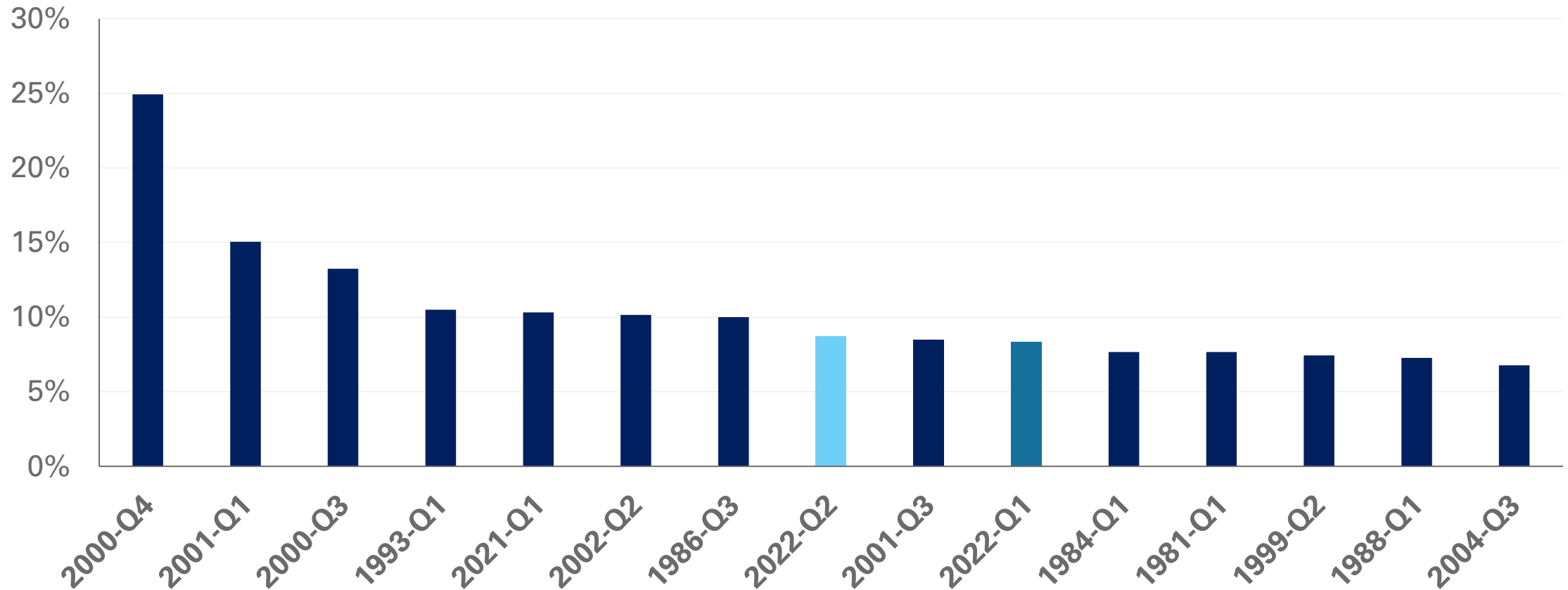
**Look to add value exposure** to U.S. large-cap equity to mitigate the portfolio impact of inflation normalizing above market expectations

**Resurgence of deflationary influences** is a risk as low interest rates and inflation benefit the S&P 500 and mega-cap technology stocks



# VALUE OUTPERFORMED GROWTH OVER Q2

## TOP 15 RUSSELL 1000 VALUE – GROWTH TOTAL RETURN



# STRATEGIC ASSET ALLOCATION OUTLOOK

We **stand at a regime “Crossroads”** and the path is likely secular stagnation, expanding growth forces, or entrenched inflation

**Higher interest rates lift public credit return assumptions** and temper the outlook for equities given the expected valuation headwinds

**Be mindful of adding public real assets**, as inflation-sensitivity and portfolio objectives inform an investor’s strategic real asset allocation

The **development of inflationary trends** will impact the behavioral biases that market participants have been conditioned to expect over the last decade

# PRIVATE EQUITY



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# PRIVATE EQUITY THOUGHTS & ACTIONS

**Private market commitments should be strategic in nature** as tactical positioning adjustments are difficult to execute effectively

**Vintage year diversification is key:** capital deployed in recession-era vintages tend to generate higher alpha and illiquidity premia

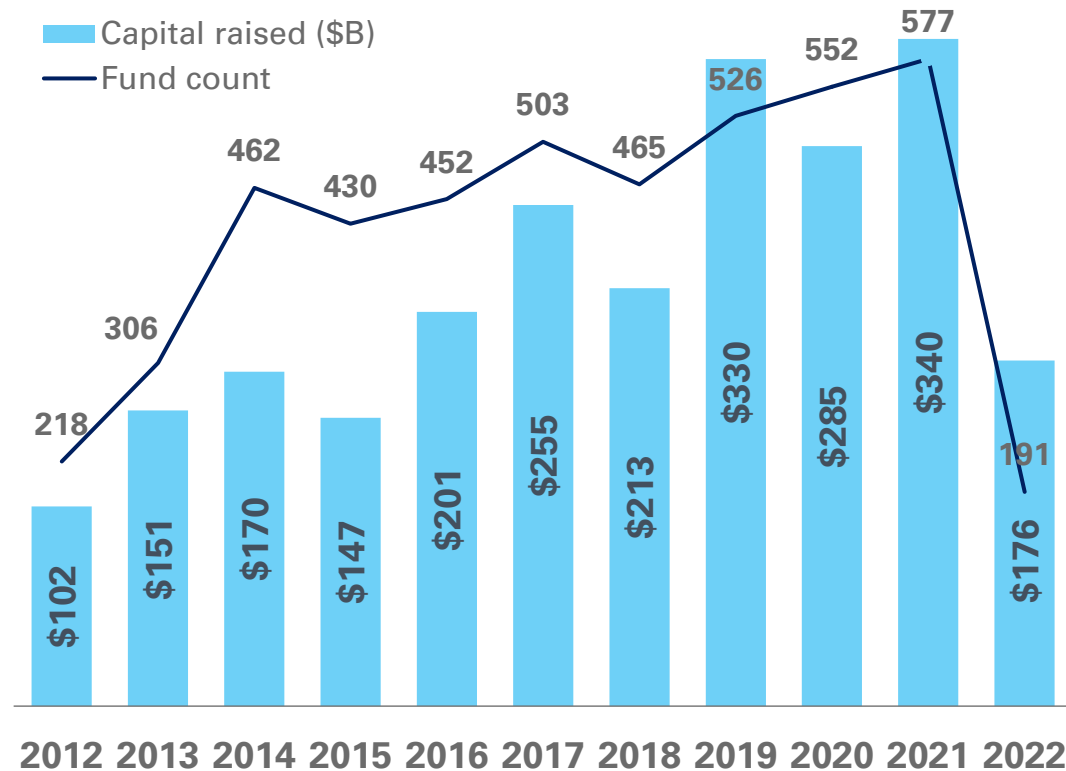
**Maintain new commitments to capture higher potential returns** and seek opportunities to access top-tier managers

**If pacing must be adjusted, we suggest scaling down commitment size,** which will ensure continued access to high-quality managers

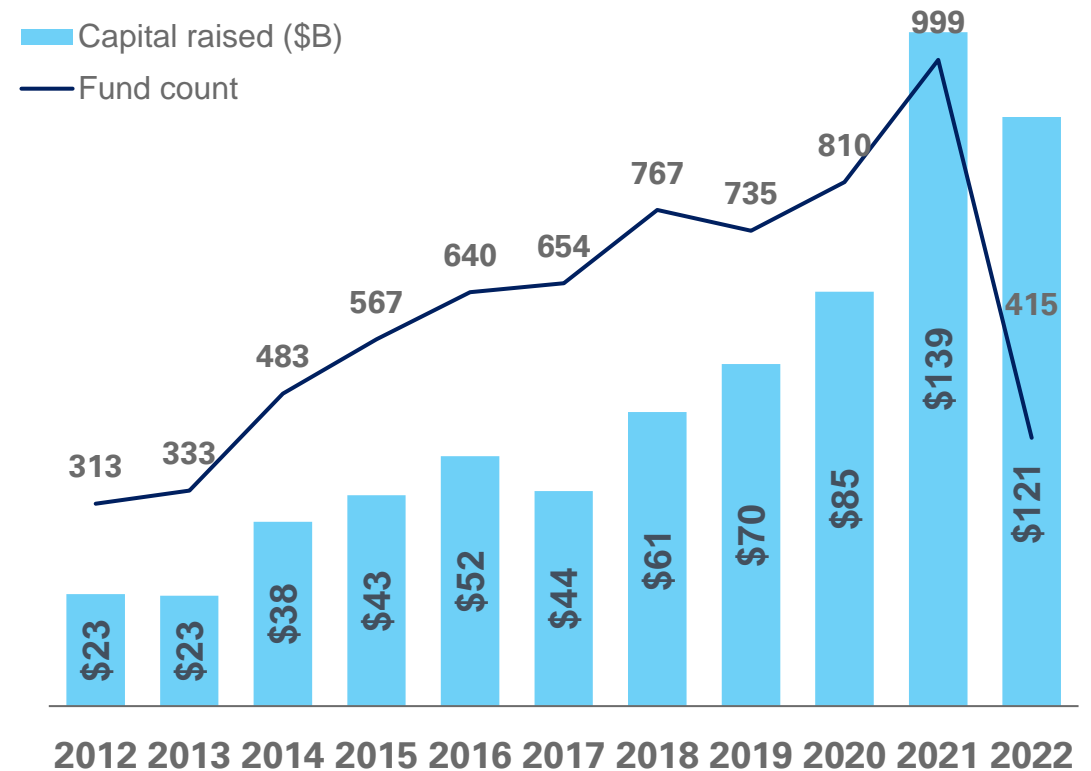
# PRIVATE CAPITAL FUND RAISING

## FUNDRAISING HAS SLOWED

### US Private Equity Fundraising

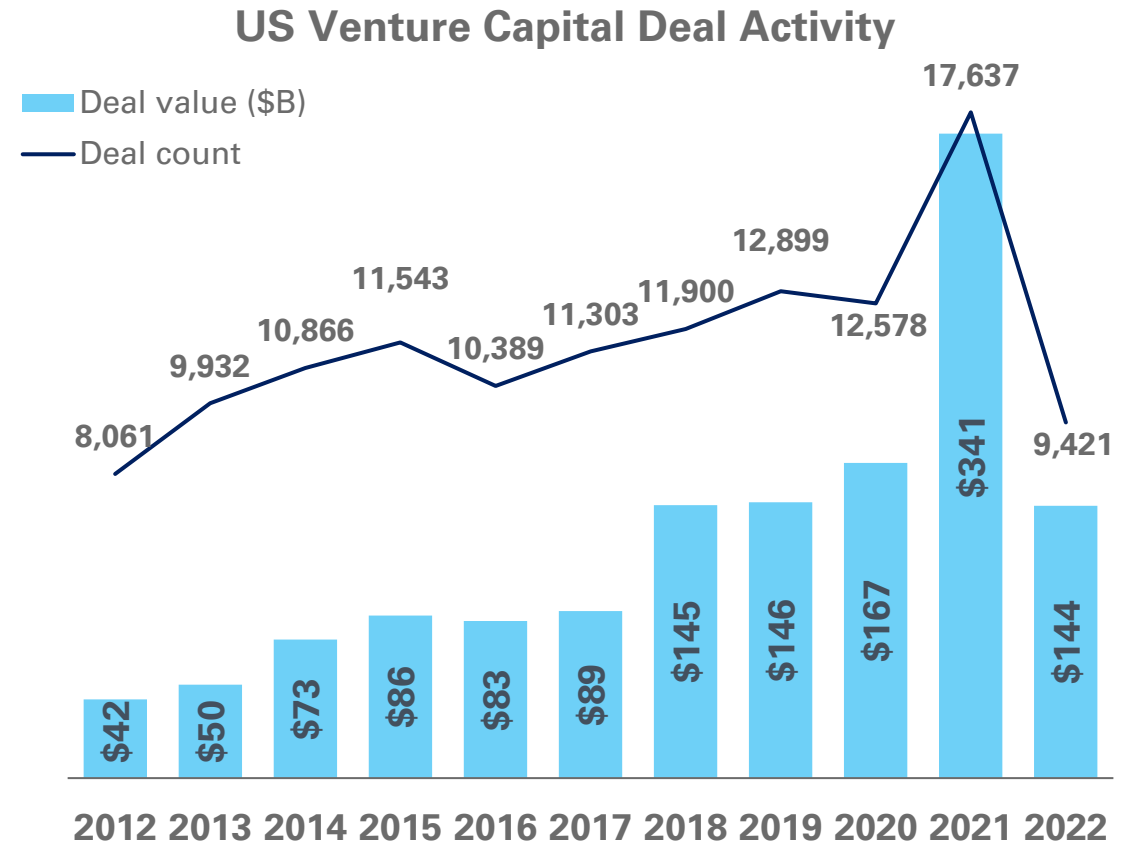
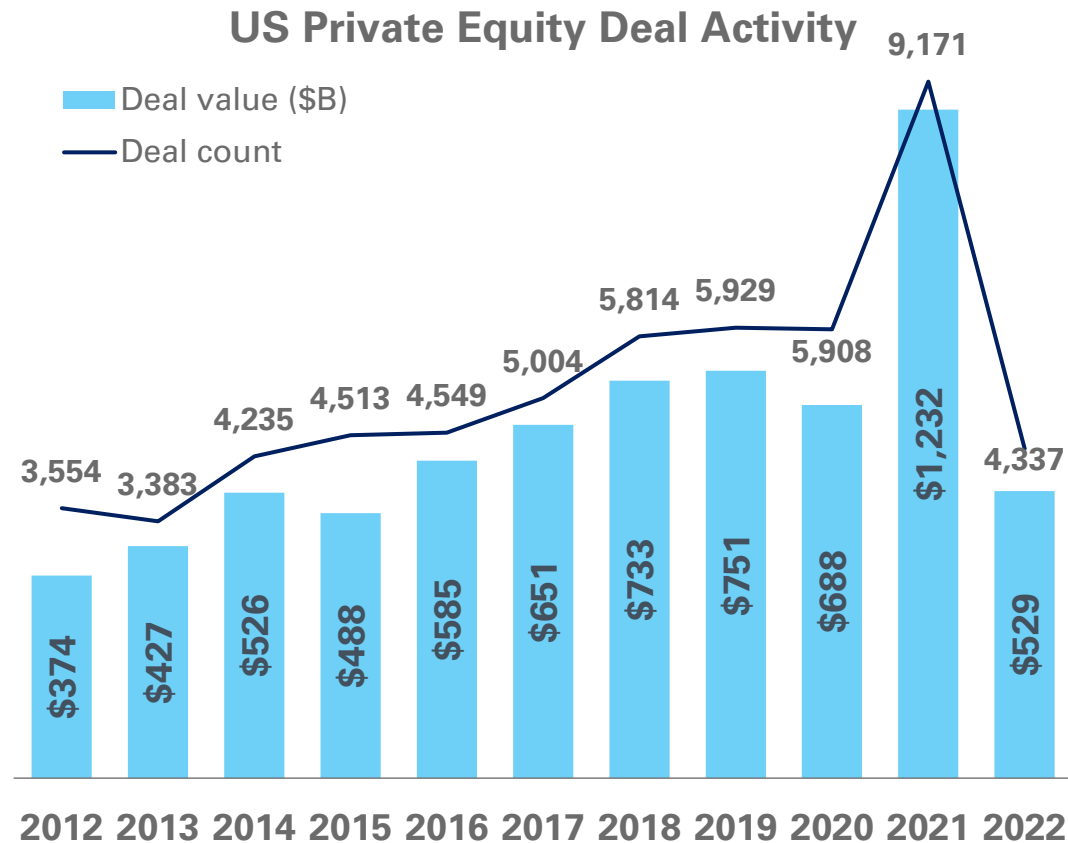


### US Venture Fundraising



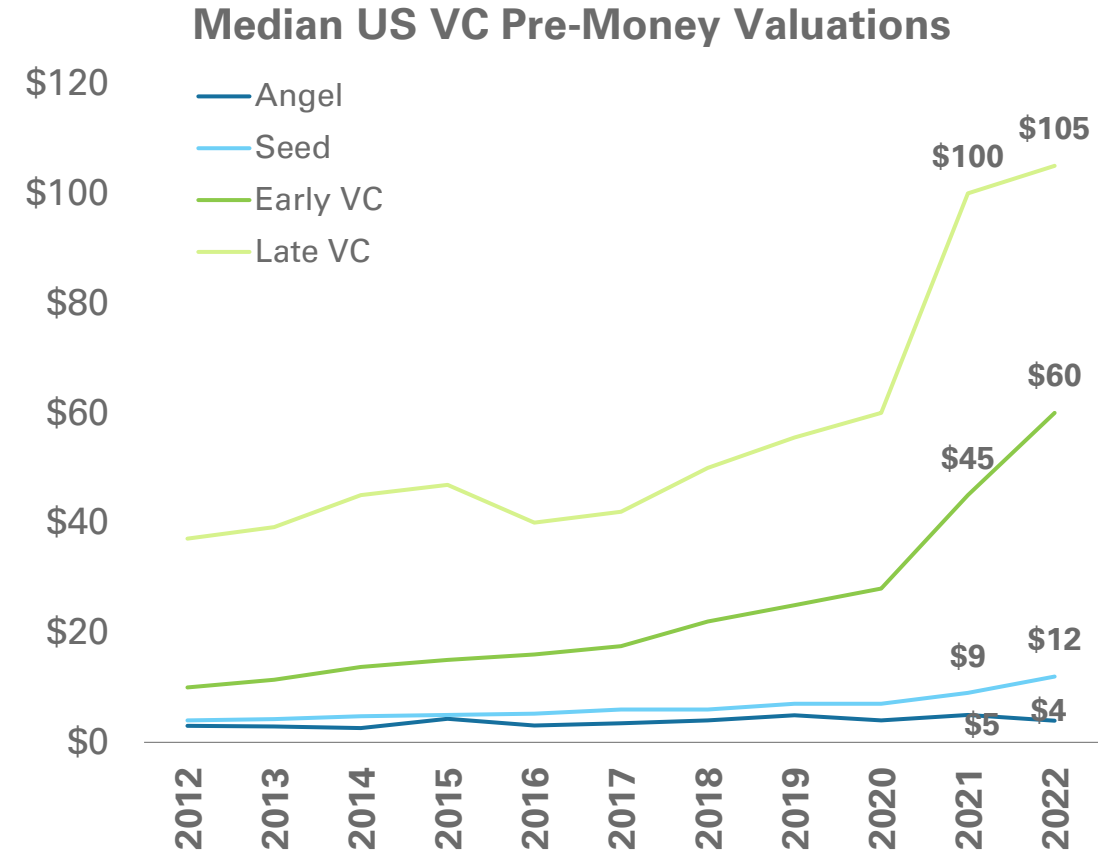
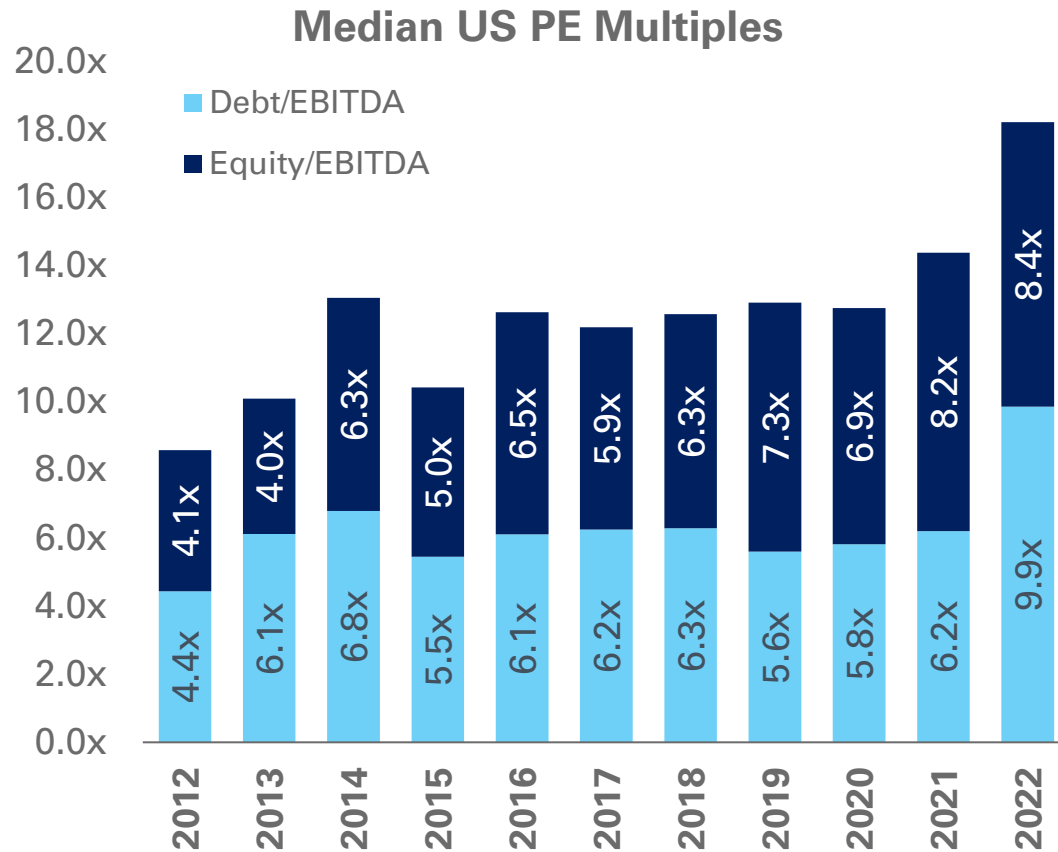
# DEAL ACTIVITY

## SHARP DECLINE IN DEAL ACTIVITY

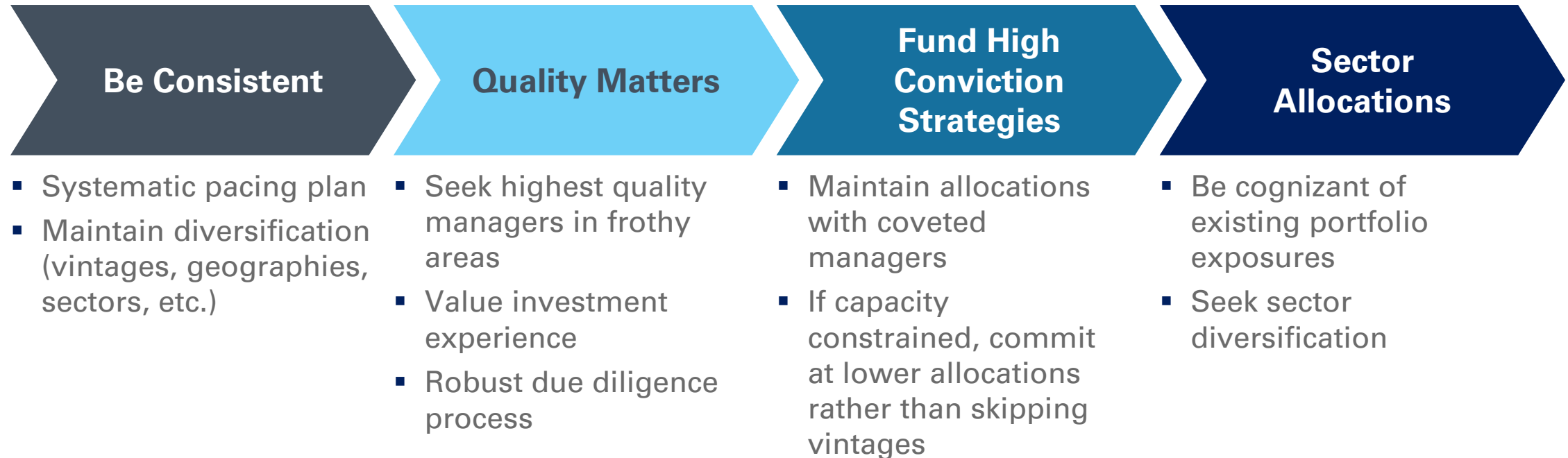


# VALUATIONS

## VC SHOWING SIGNS OF PEAKING



# MOVING FORWARD – BEST PRACTICES





# QUESTIONS



# SAVE THE DATE

The Investment Diversity  
Advisory Council is hosting the first

**IDAC National Summit on DEI**  
**September 14, 2022, Atlanta, GA**

Contact [diversemanagers@nepc.com](mailto:diversemanagers@nepc.com)  
for more details



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