

A blurred, long-exposure photograph of a city at night, showing light trails from cars and buildings. The image is predominantly blue, with some warm lights from the city.

NEPC MARKET OUTLOOK

INVESTING IN A BEAR MARKET

JULY 20, 2022



SPEAKERS



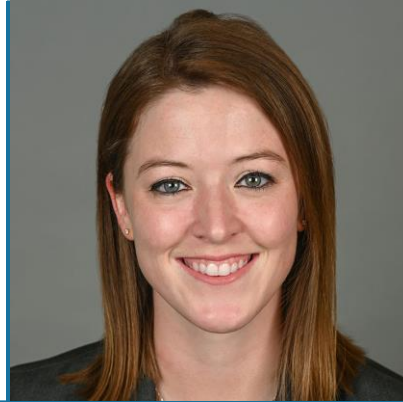
Phillip Nelson, CFA

Partner, Director of
Asset Allocation



Joshua Beers

Principal, Head of Private
Equity Investments

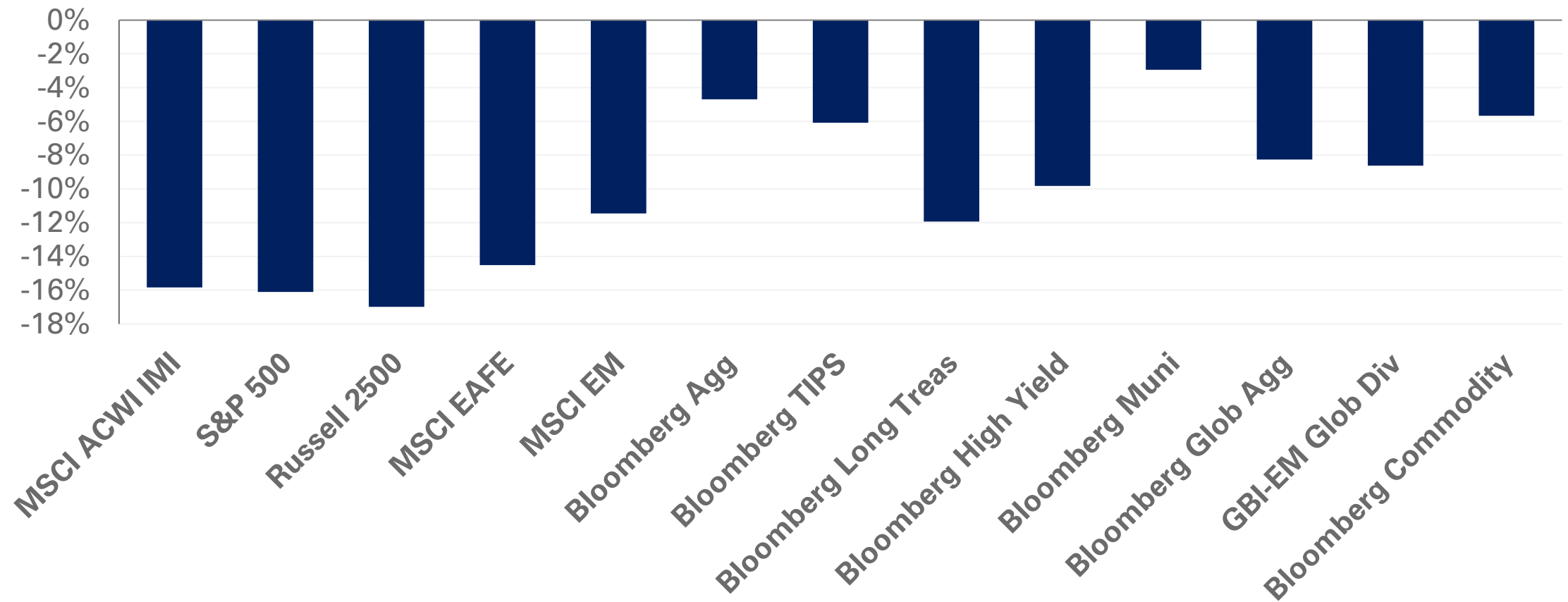


Jennifer Appel, CFA

Investment Director,
Asset Allocation

GLOBAL MARKETS BROADLY DECLINED

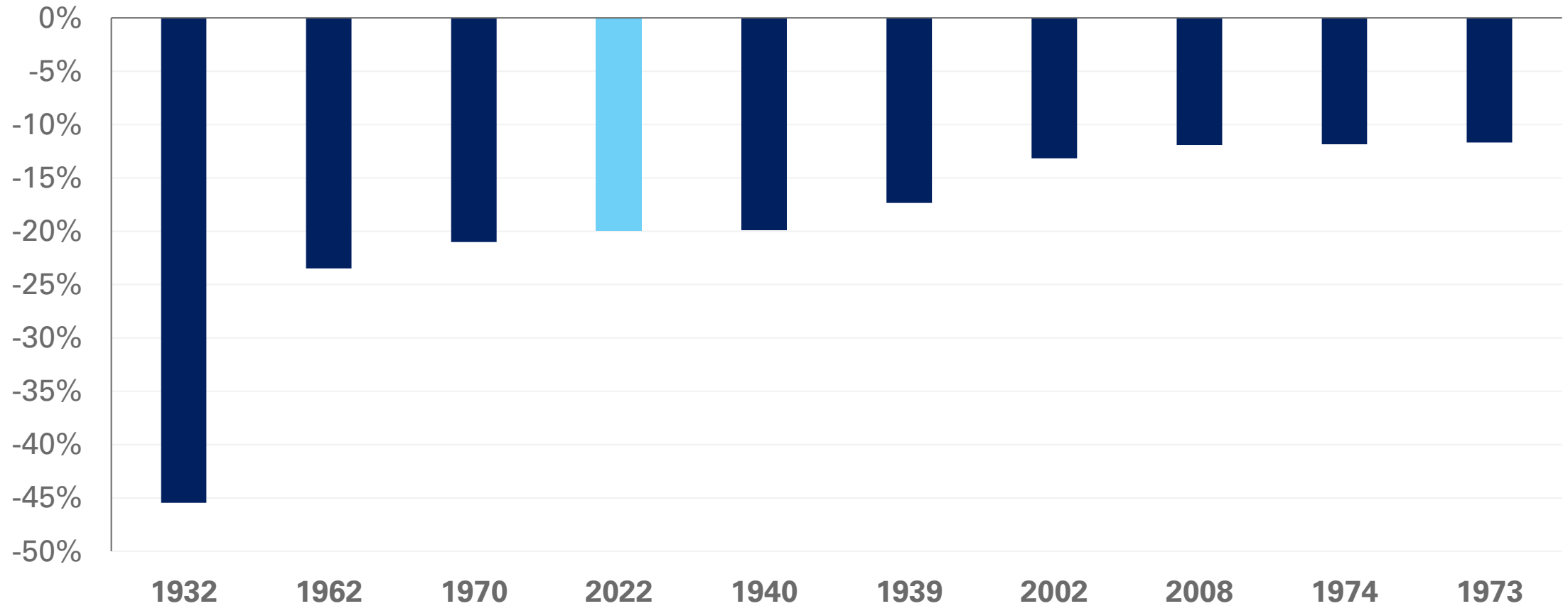
QUARTERLY TOTAL RETURNS



Sources: MSCI, S&P, Russell, MSCI, Bloomberg, JPM, FactSet

WORST START FOR THE S&P IN OVER 50 YEARS

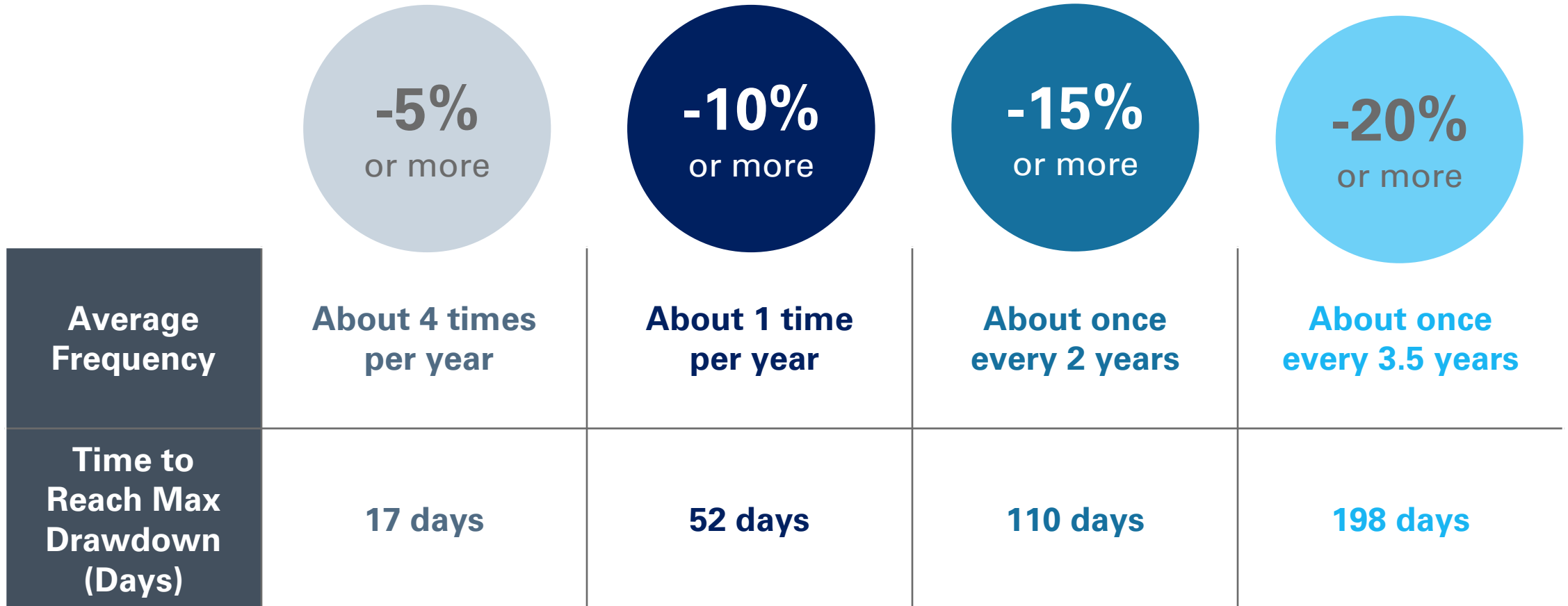
TOP 10 S&P 500 LOSSES IN FIRST HALF OF THE YEAR



Sources: S&P, FactSet

U.S. MARKET CORRECTIONS IN CONTEXT

S&P 500 INDEX (1948-PRESENT)



Sources: S&P, FactSet, NEPC

BEAR MARKETS CAN BE LENGTHY

LENGTH AND DEPTH OF S&P 500 BEAR MARKETS

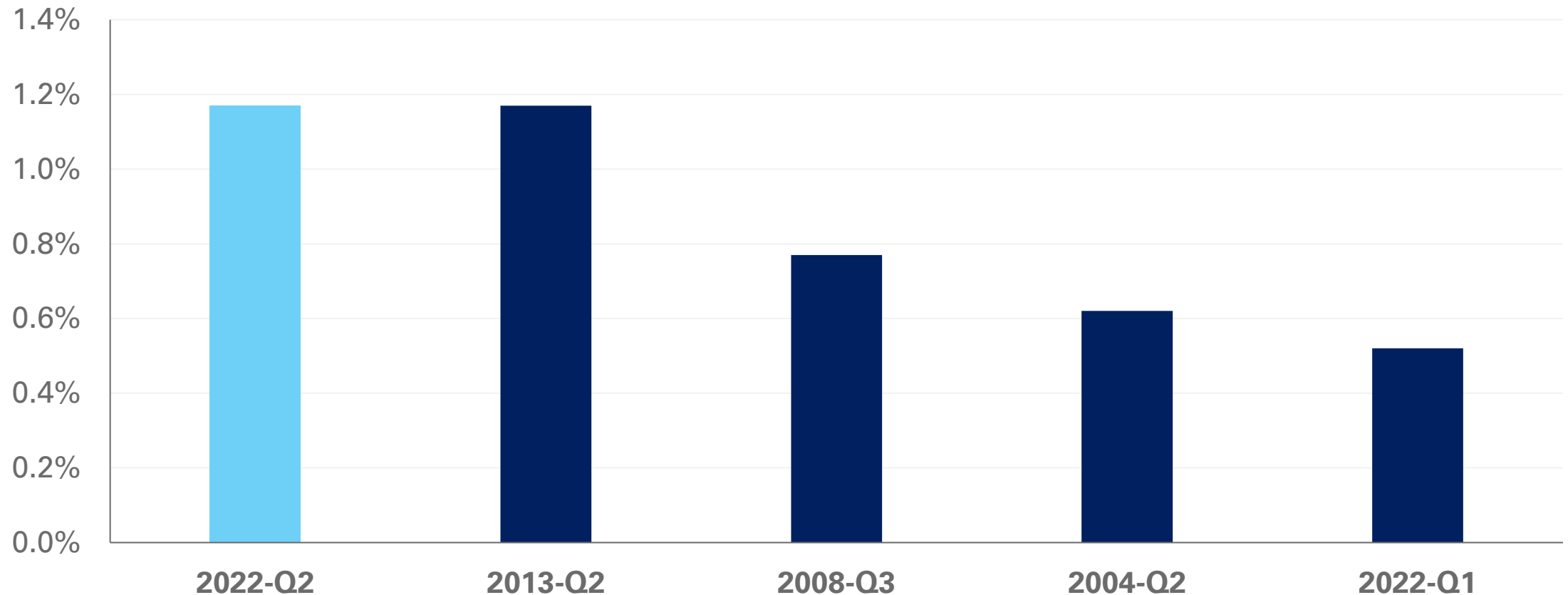
Start	End	Length of Bear Market (Months)	Length of Recovery* (Months)	S&P 500 Decline
01/03/2022	?	6*	?	-22%*
02/19/2020	03/23/2020	1	5	-34%
10/09/2007	03/09/2009	17	59	-55%
03/24/2000	10/09/2002	31	80	-47%
08/25/1987	12/04/1987	3	20	-34%
11/28/1980	08/12/1982	21	3	-27%
01/11/1973	10/03/1974	21	69	-48%



Notes: 2022 bear market is ongoing; represents historical bear markets since 1970. *Length of Recovery represents time to recoup losses from the start of the bear market.
Sources: S&P, FactSet, NEPC

REAL YIELDS SURGED DURING THE QUARTER

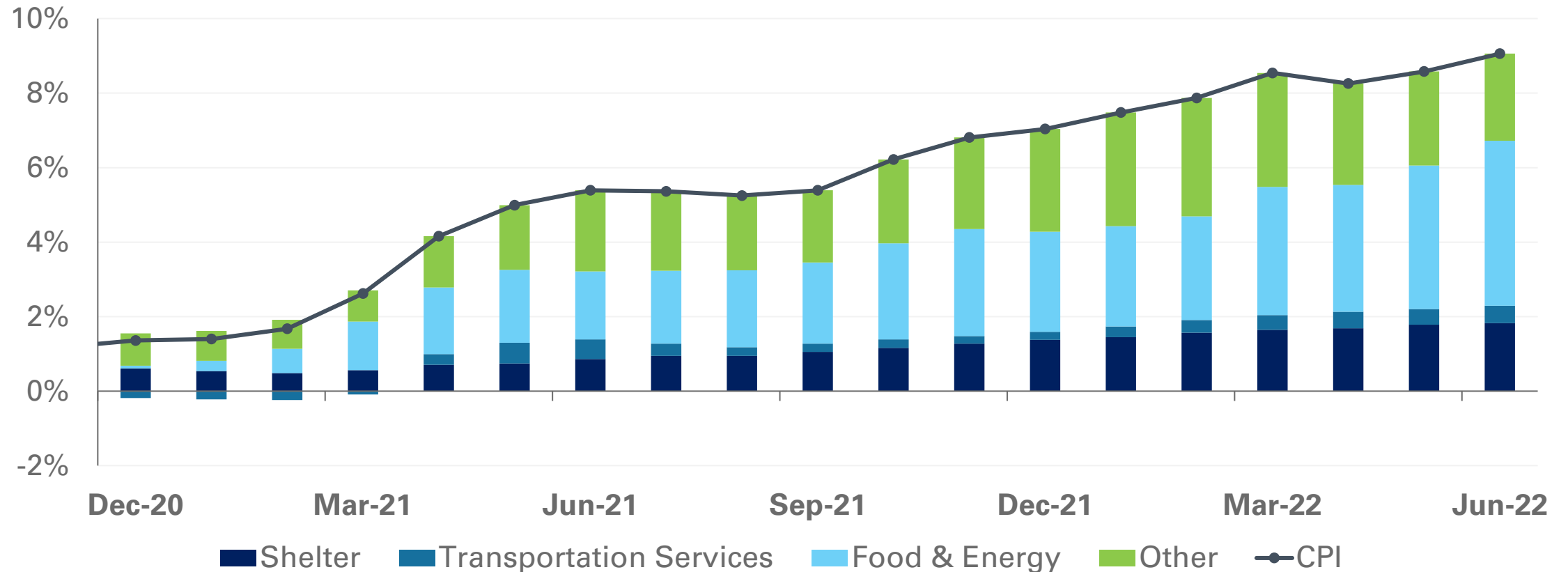
TOP 5 QUARTERLY CHANGE IN 10-YEAR TIPS REAL YIELDS



Calculated based on data between 12/31/2002 to 6/30/2022
Source: FactSet

INFLATION REMAINS ELEVATED

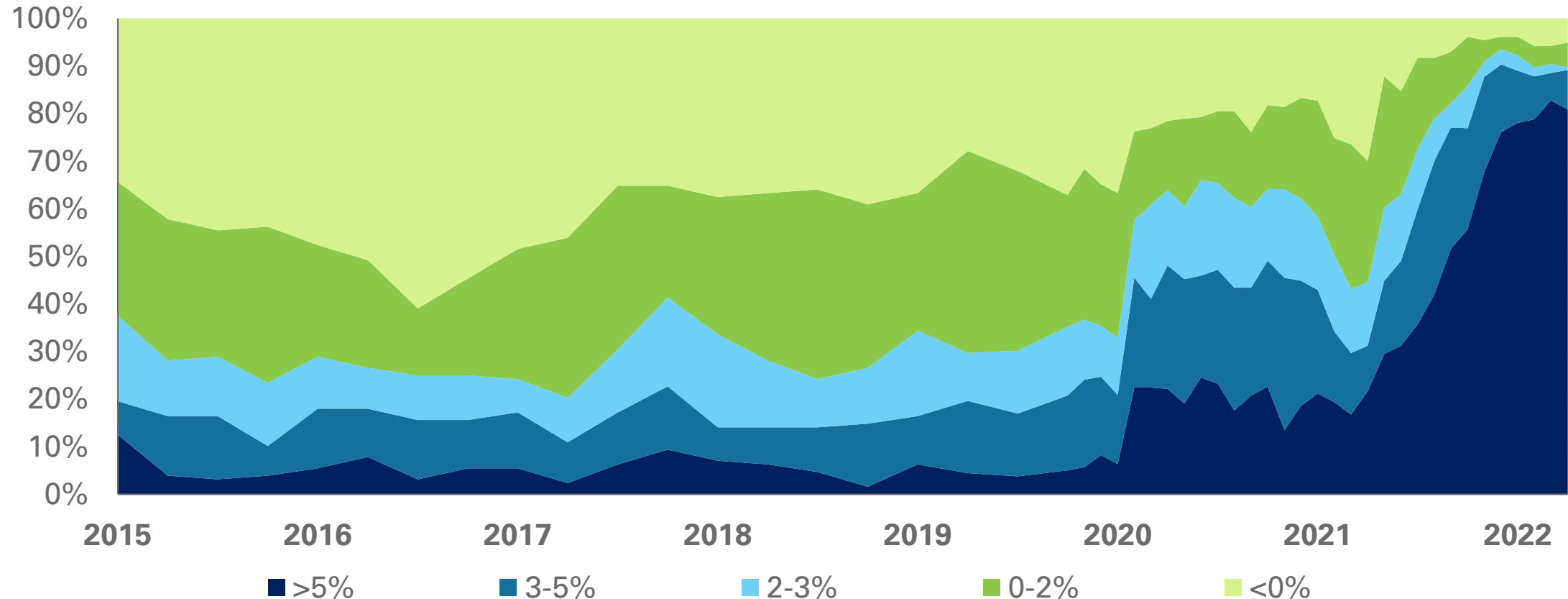
ANNUAL U.S. CPI-U CHANGES



Sources: U.S. Department of Labor, FactSet

MANY CATEGORIES ARE DRIVING PRICE PRESSURES

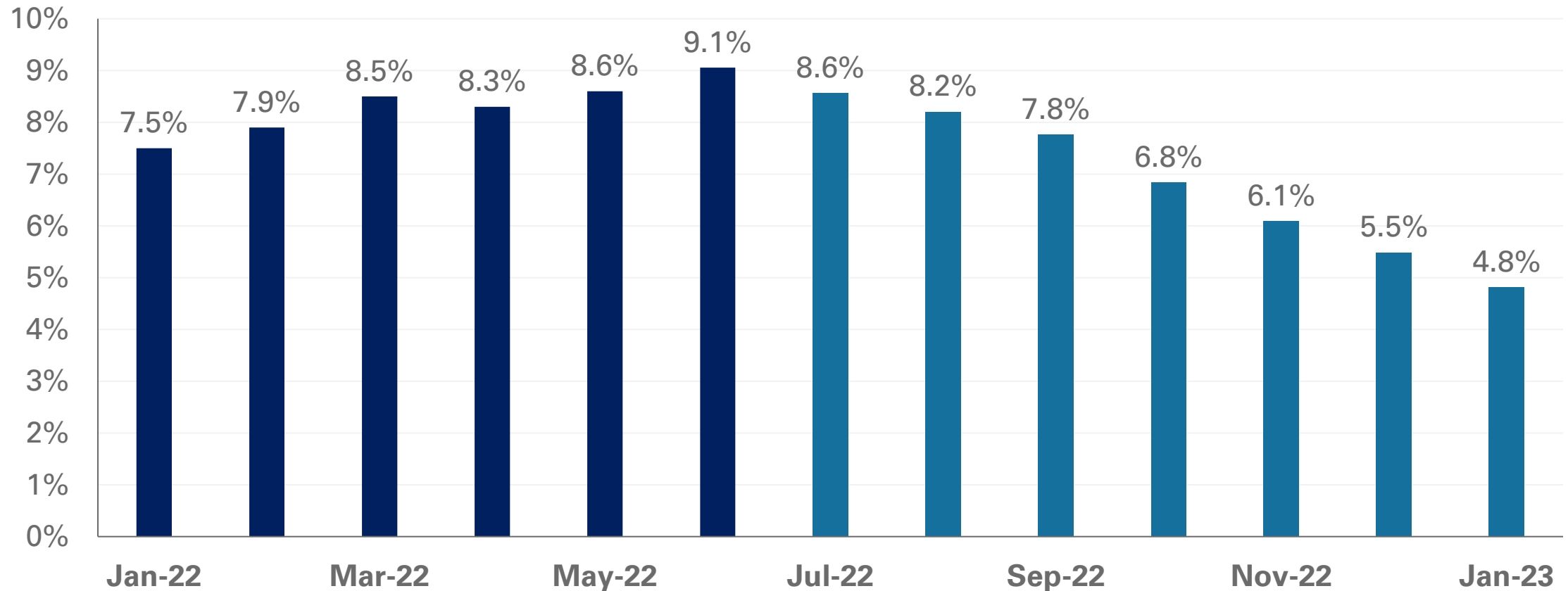
U.S. CPI COMPONENTS BY ANNUAL PERCENTAGE CHANGE



Sources: U.S. Department of Labor, FactSet, NEPC

INFLATION WILL REMAIN ELEVATED INTO 2023

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

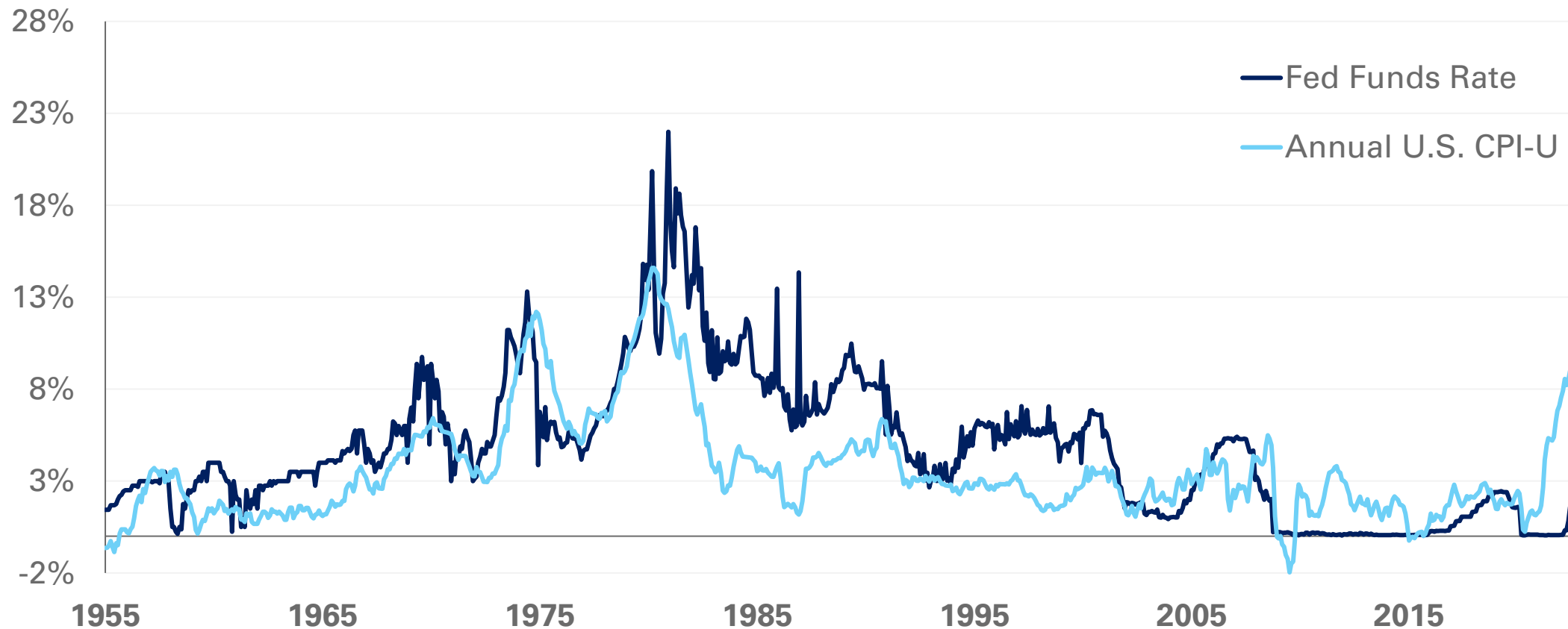


Notes: Figures calculated pulling forward the June index value
Sources: U.S. Department of Labor, FactSet, NEPC



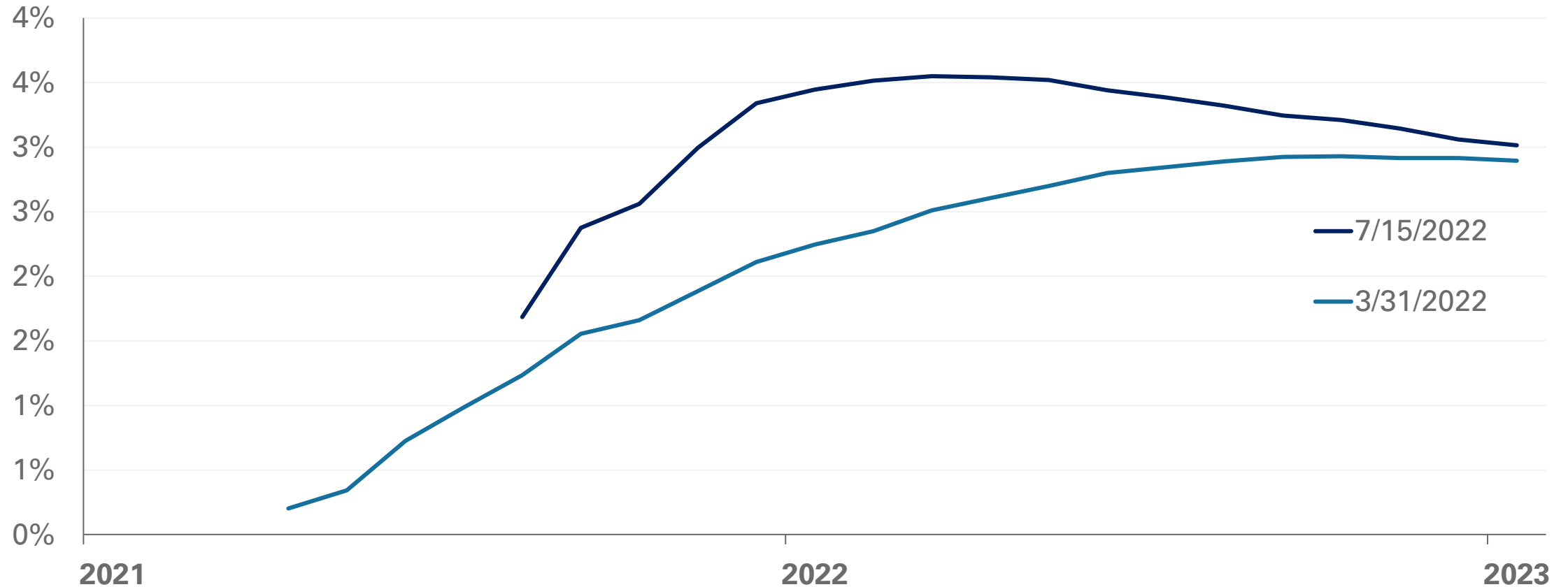
INFLATION AND FED FUNDS NEED TO CONVERGE

HISTORICAL RELATIONSHIP BETWEEN FED FUNDS AND INFLATION



PRICING ANTICIPATES TIGHTER NEAR-TERM POLICY

FEDERAL FUNDS FUTURES



Source: FactSet



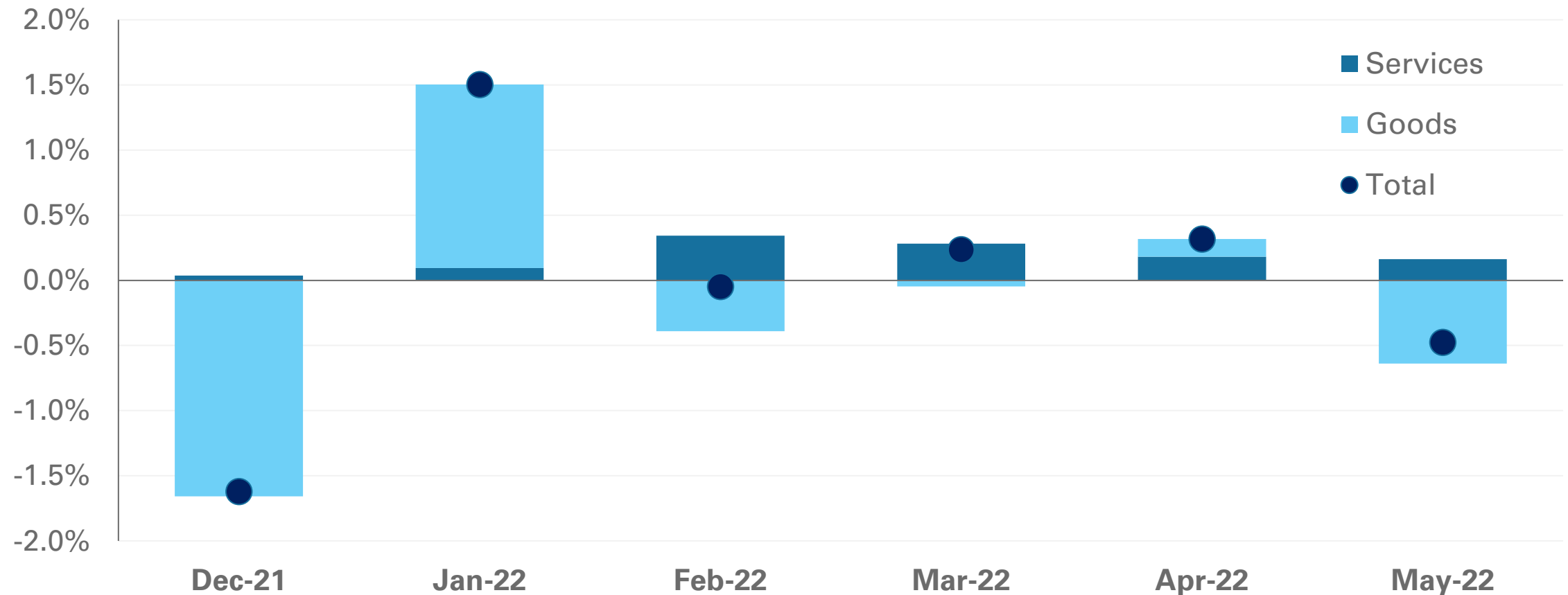
ECONOMIC CROSSROADS



PROPRIETARY & CONFIDENTIAL

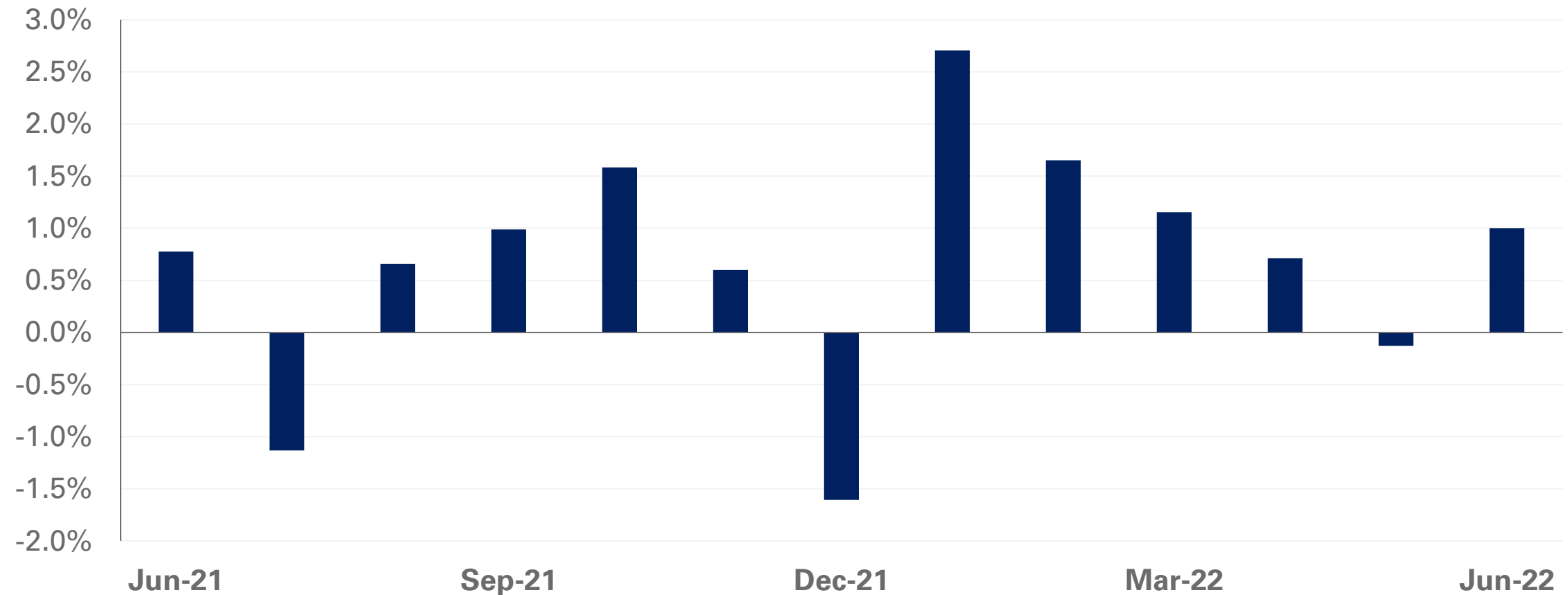
SPENDING ON GOODS DECLINED

MONTHLY CHANGE IN PERSONAL CONSUMPTION EXPENDITURE



CONSUMPTION REMAINS POSITIVE

MONTHLY NOMINAL U.S. RETAIL SALES GROWTH



WAGE PRESSURES ARE ELEVATED

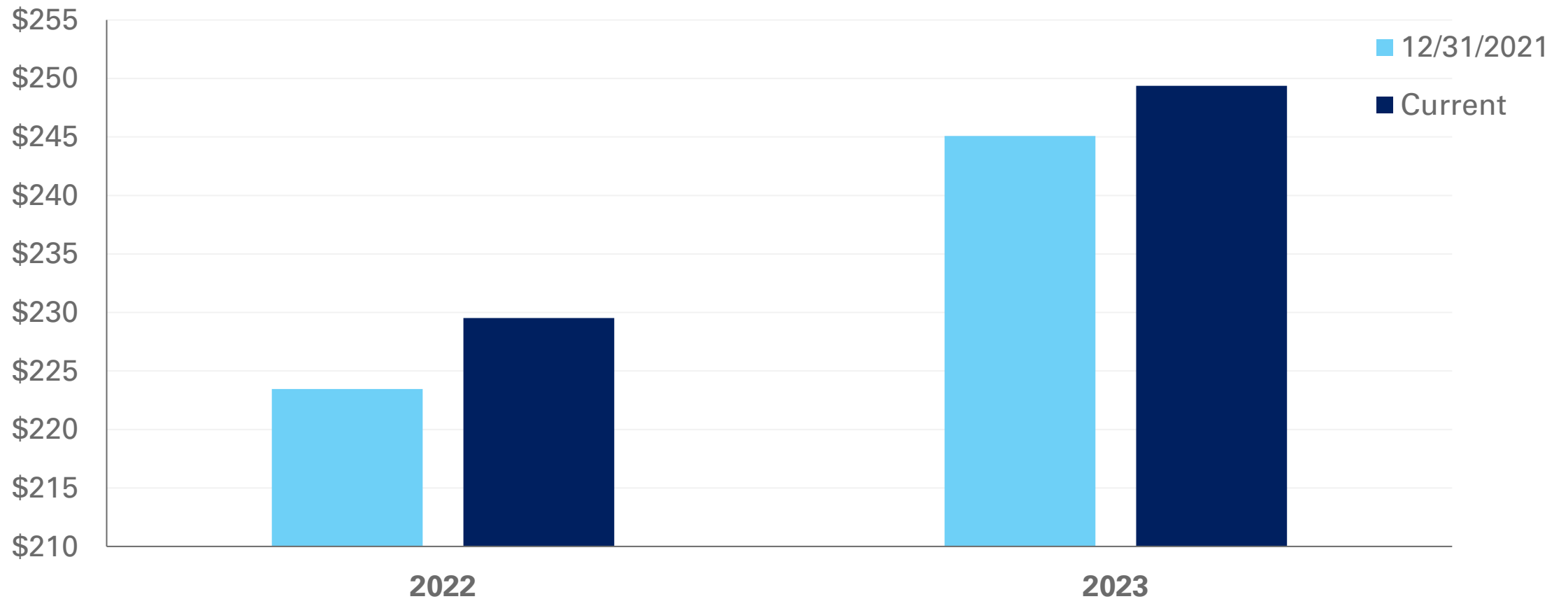
THREE-MONTH MOVING AVERAGE OF MEDIAN WAGE GROWTH



Sources: Current Population Survey, Bureau of Labor Statistics, and Federal Reserve Bank of Atlanta Calculations

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

PORTFOLIO POSITIONING



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

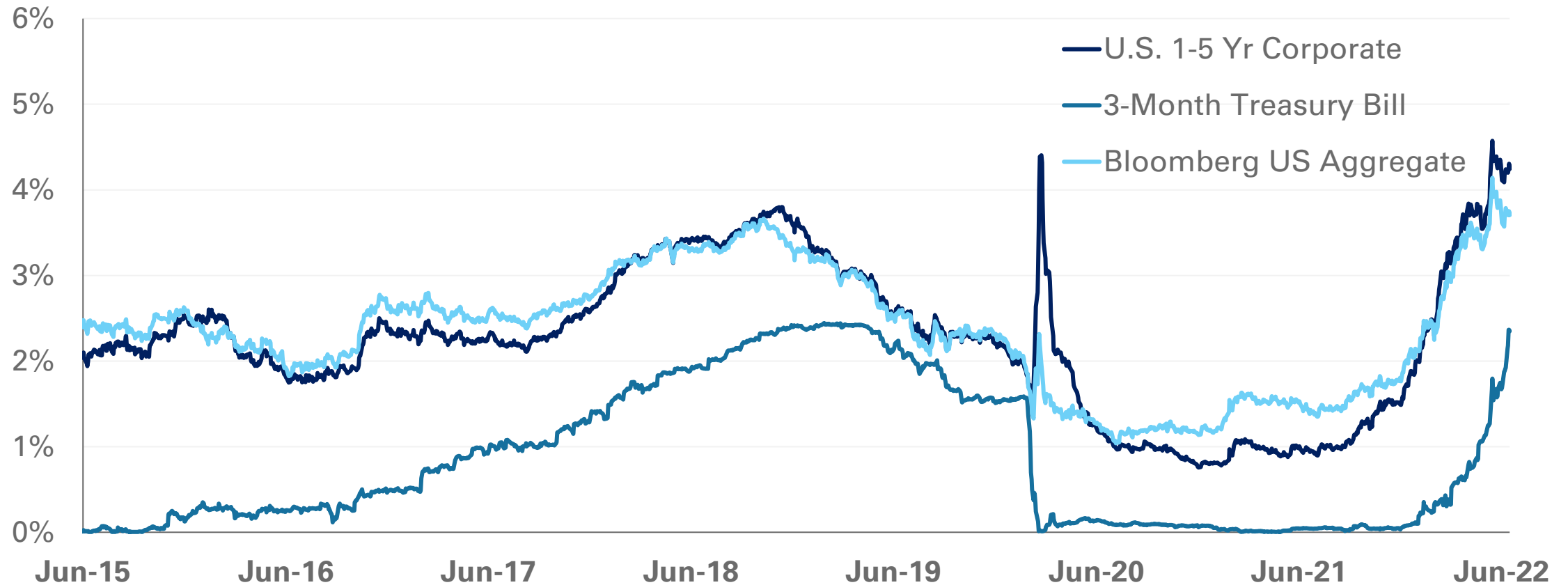
S&P 500 EARNINGS YIELD LESS BBB BOND YIELD



Sources: S&P, FactSet, NEPC

BOND YIELDS HAVE MOVED HIGHER

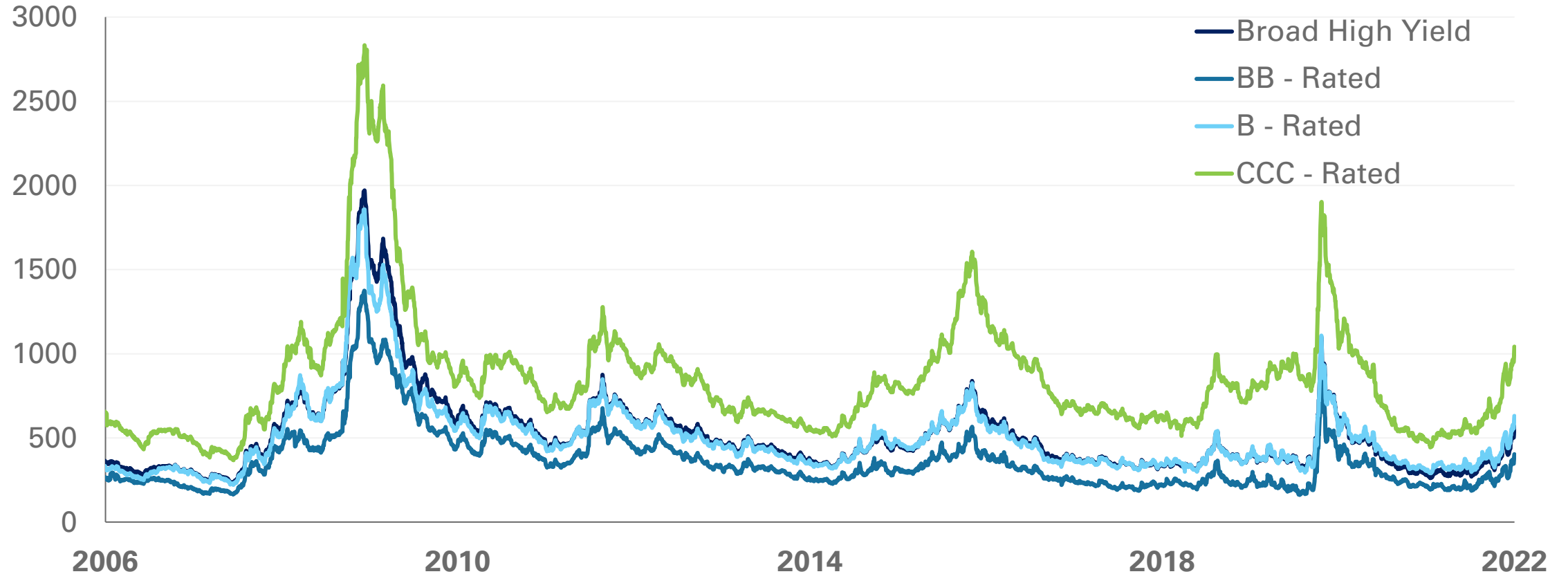
POTENTIAL FED HIKES ARE BEING PRICED INTO THE MARKET



Sources: Bloomberg, FactSet

KEEP AN EYE ON SPREADS AS AN OPPORTUNITY

U.S. CORPORATE HIGH YIELD SPREADS



Sources: Bloomberg, FactSet

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

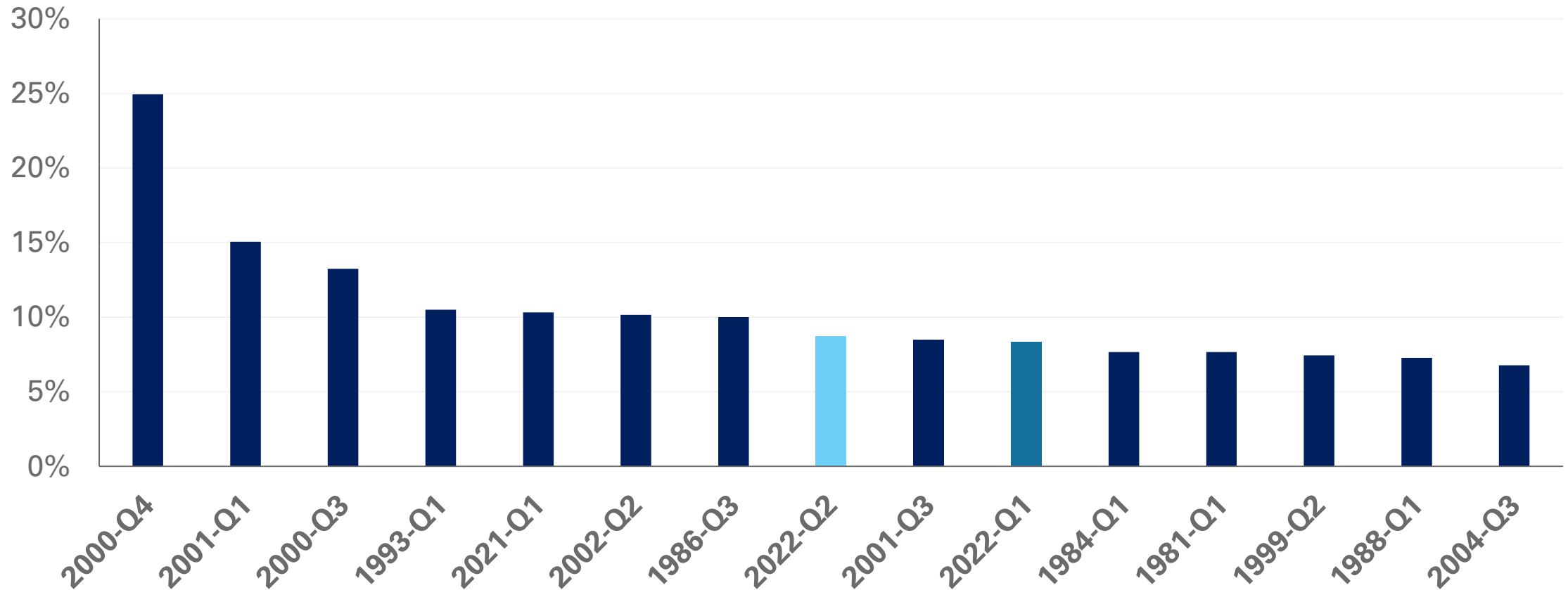
With **“stickier” inflation and higher interest rates**, we are concerned the S&P 500 and the portfolio will continue to see headwinds

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



Sources: Russell, FactSet

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



PROPRIETARY & CONFIDENTIAL

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

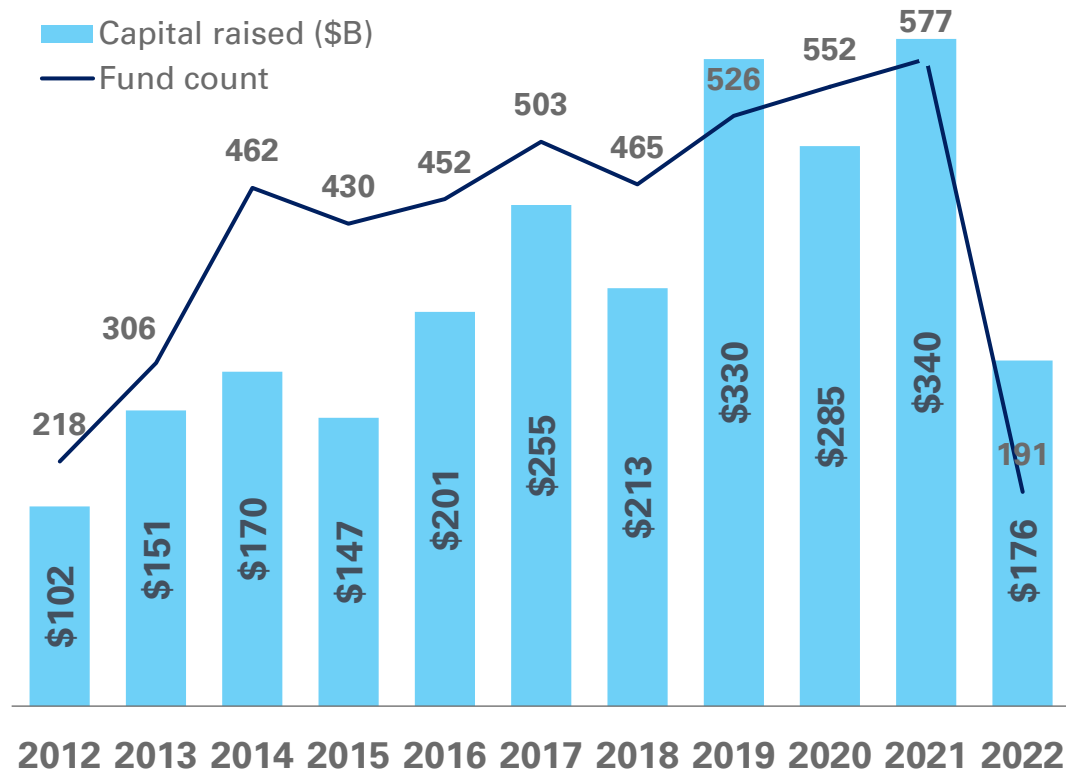
Maintain new commitments to capture higher potential returns and seek opportunities to access top-tier managers

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

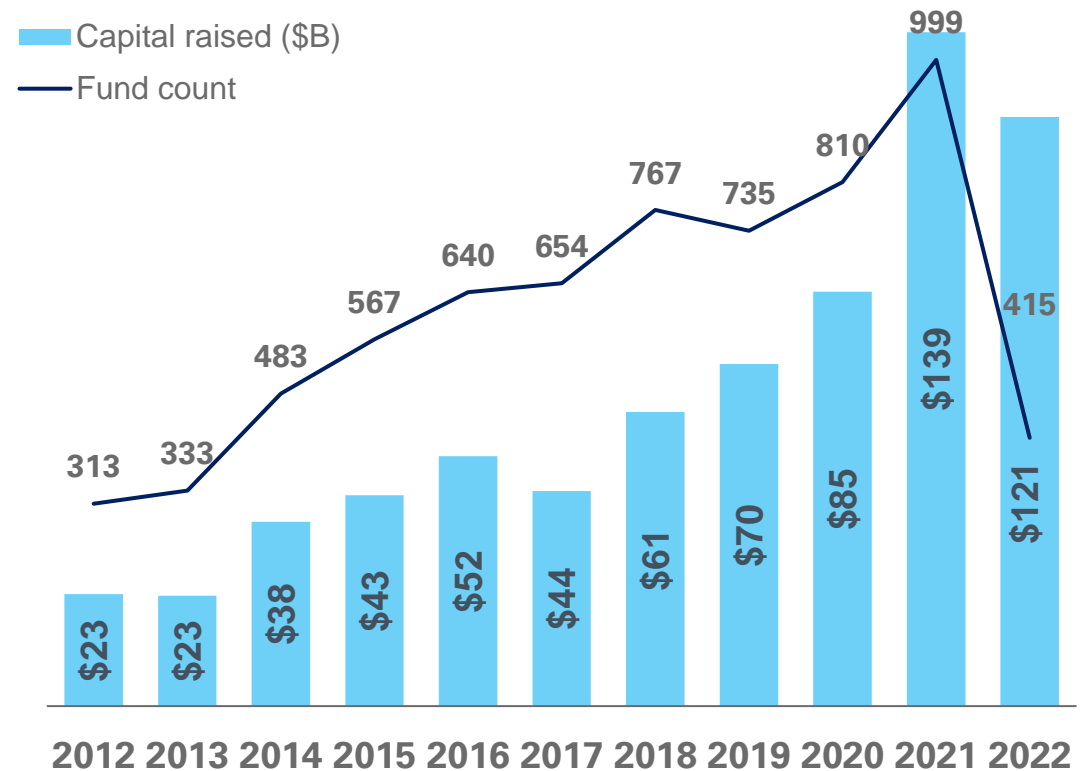
PRIVATE CAPITAL FUND RAISING

FUNDRAISING HAS SLOWED

US Private Equity Fundraising



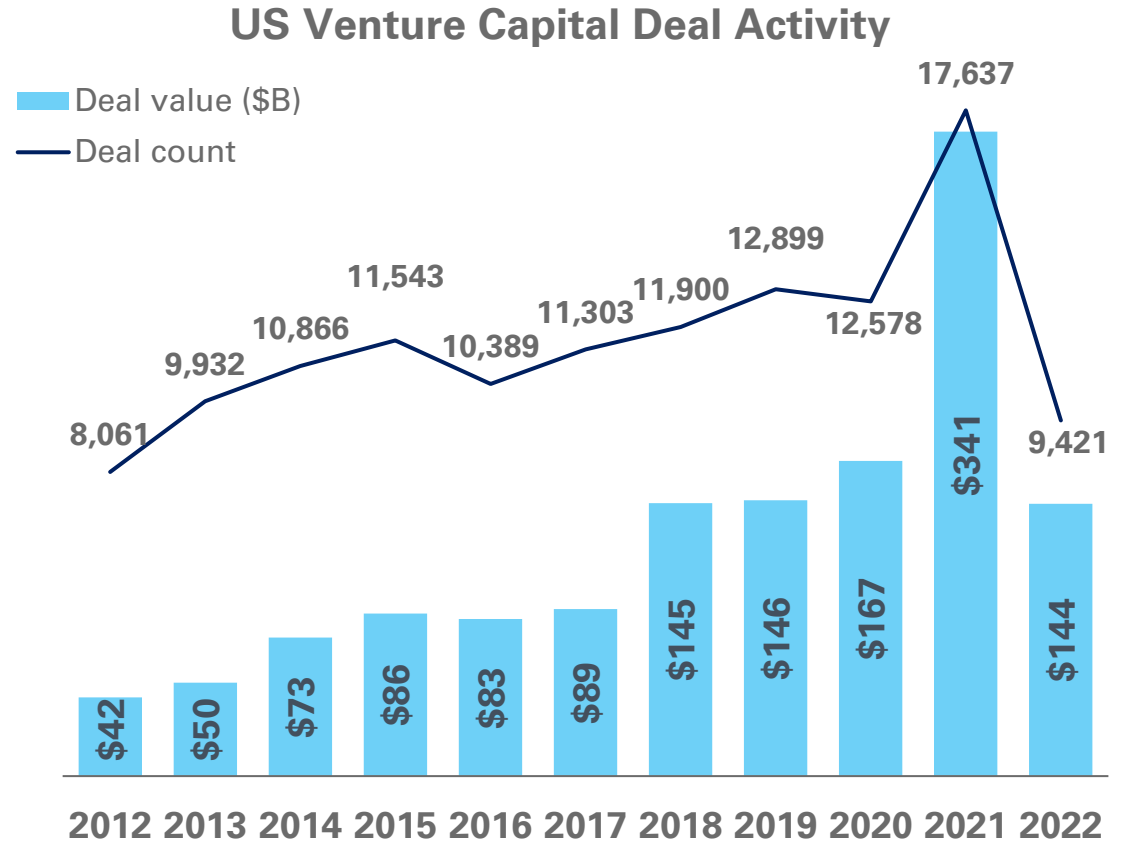
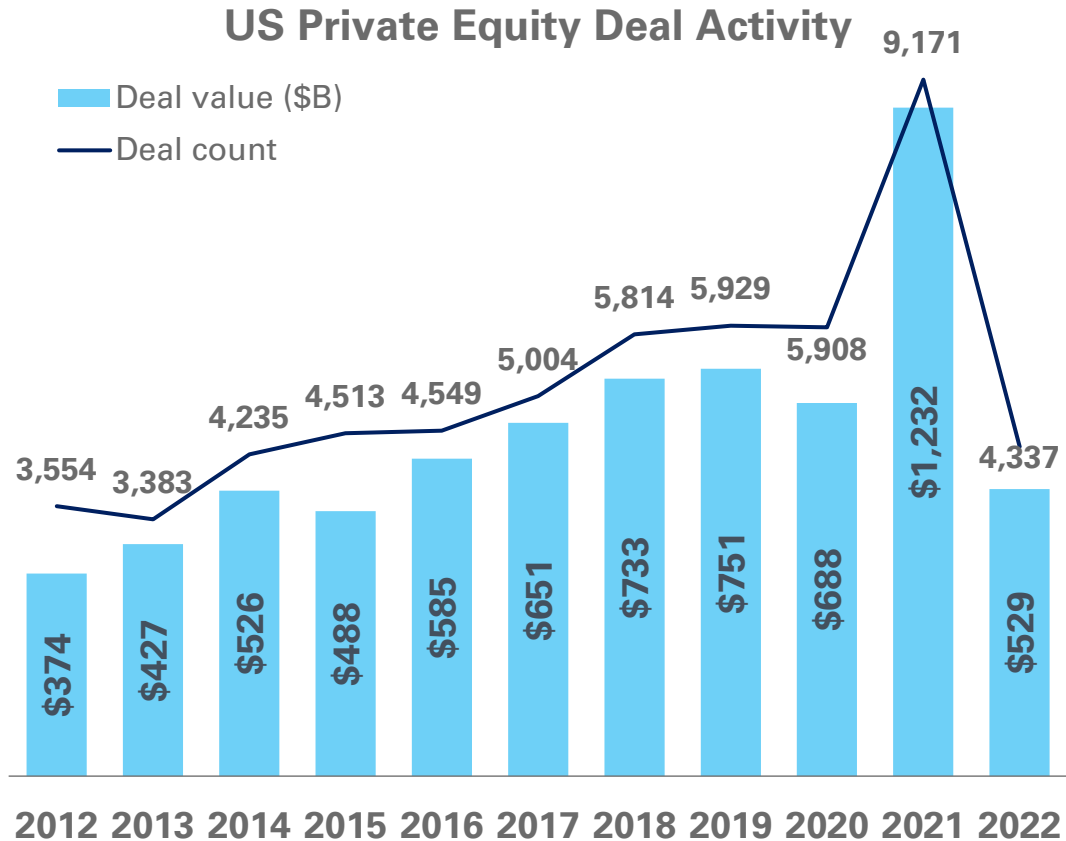
US Venture Fundraising



Source: PitchBook
Capital Raised & Fund Count through June 31, 2022

DEAL ACTIVITY

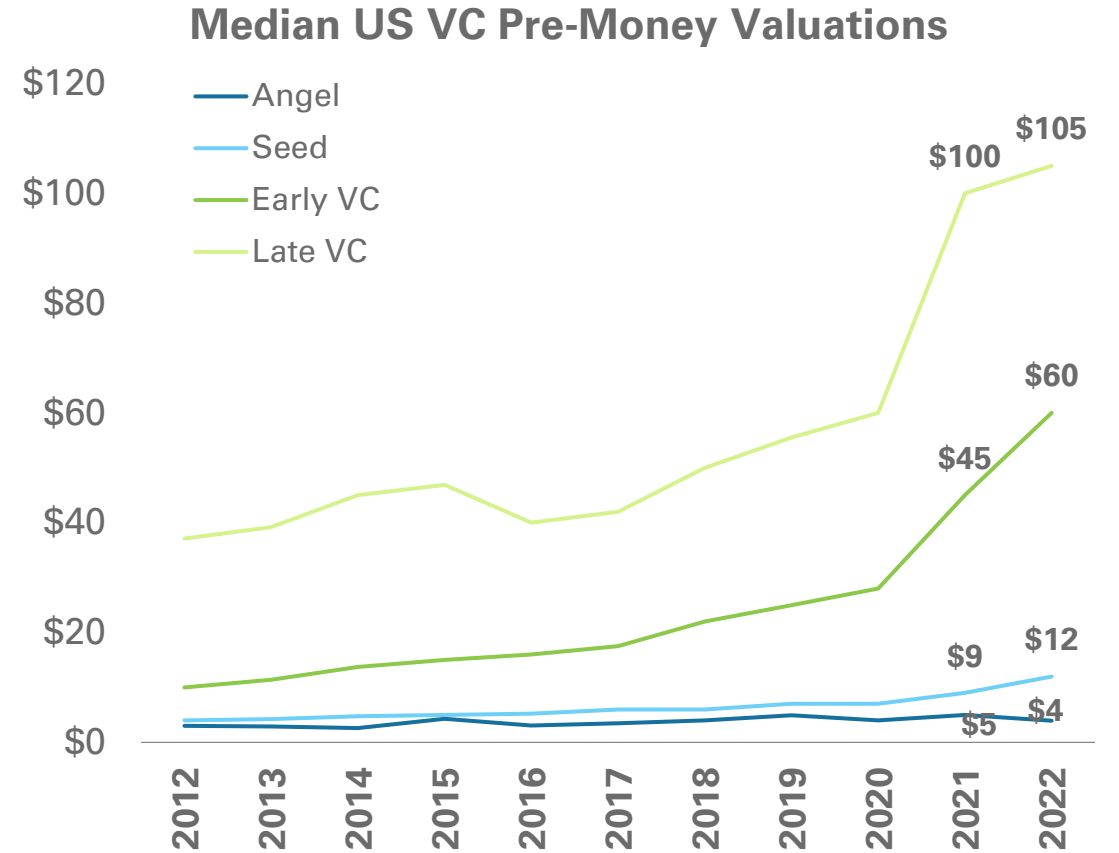
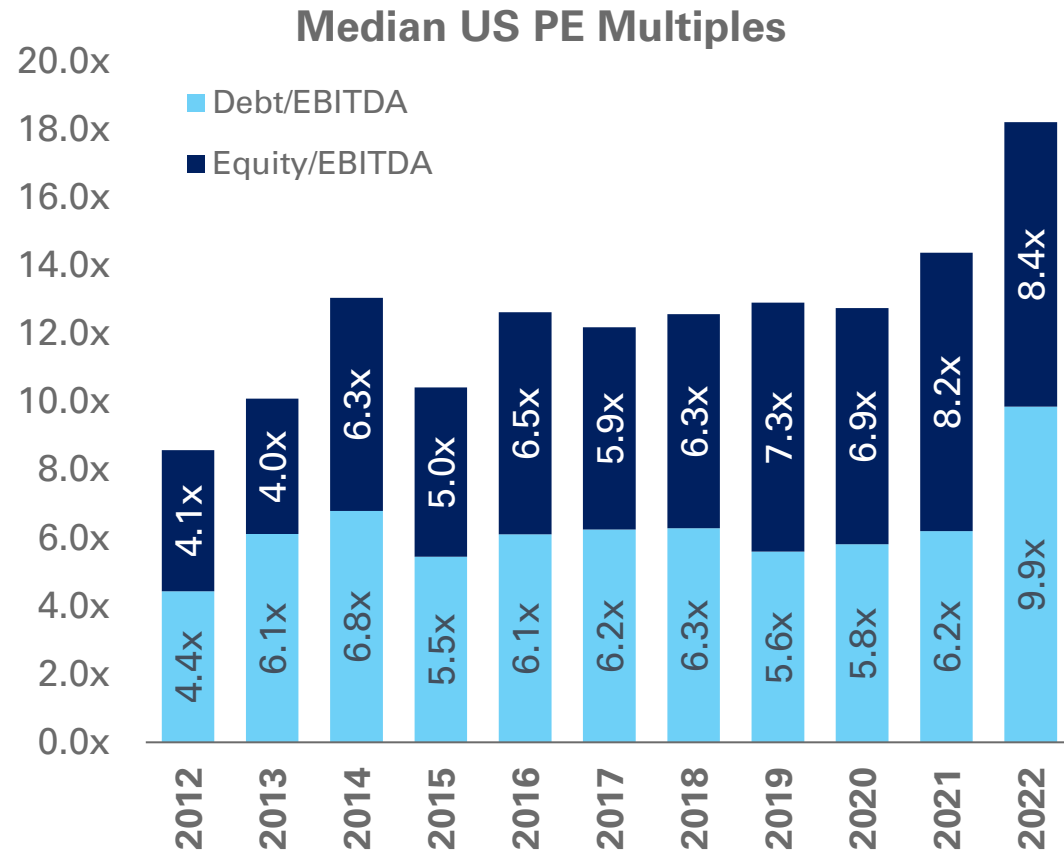
SHARP DECLINE IN DEAL ACTIVITY



Source: PitchBook
As of June 30, 2022

VALUATIONS

VC SHOWING SIGNS OF PEAKING



Source: PitchBook
As of June 30, 2022

MOVING FORWARD – BEST PRACTICES

Be Consistent

- Systematic pacing plan
- Maintain diversification (vintages, geographies, sectors, etc.)

Quality Matters

- Seek highest quality managers in frothy areas
- Value investment experience
- Robust due diligence process

Fund High Conviction Strategies

- Maintain allocations with coveted managers
- If capacity constrained, commit at lower allocations rather than skipping vintages

Sector Allocations

- Be cognizant of existing portfolio exposures
- Seek sector diversification



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
for more details



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