



QUARTERLY ASSET CLASS REVIEW

NEPC Research

Second Quarter
2022

GLOBAL EQUITIES

The rout in equities spilled into the second quarter as heightened geopolitical tensions, high inflation and dramatic increases in interest rates ratcheted up concerns of a recession. Major indexes declined sharply with the S&P 500 Index down 16.1% while European stocks fared slightly better with the MSCI EAFE Index losing 14.5%; emerging markets led performance with losses of 11.4%, according to the MSCI EM Index.

In line with the previous quarter, value stocks bested growth equities and large-cap equities outperformed small-cap stocks. Within sectors, energy was the relative outperformer, while information technology and consumer discretionary lagged.

Meanwhile, global private equity fundraising totaled \$187 billion in the three months ended June 30, according to data from Preqin. During this period, fundraising in the U.S. increased to \$143 billion from \$111 billion in the first quarter, fueled by a surge in fundraising by mega-funds across buyout and venture strategies. Fundraising outside North America fell sharply to \$41 billion in the second quarter from \$87 billion in the prior quarter.

Global Equity Market Returns as of 6/30/2022

Global Equity	Quarter	1 Year	3 Yrs	5 Yrs
MSCI ACWI	-15.7%	-15.8%	6.2%	7.0%
US Equity	Quarter	1 Year	3 Yrs	5 Yrs
S&P 500	-16.1%	-10.6%	10.6%	11.3%
Russell 1000 Growth	-20.9%	-18.8%	12.6%	14.3%
Russell 1000 Value	-12.2%	-6.8%	6.9%	7.2%
Russell 2000	-17.2%	-25.2%	4.2%	5.2%
Russell 2000 Growth	-19.3%	-33.4%	1.4%	4.8%
Russell 2000 Value	-15.3%	-16.3%	6.2%	4.9%
International Equity	Quarter	1 Year	3 Yrs	5 Yrs
MSCI EAFE	-14.5%	-17.8%	1.1%	2.2%
MSCI EAFE Hedged USD	-7.8%	-6.6%	4.4%	4.3%
MSCI EAFE Small Cap	-17.7%	-24.0%	1.1%	1.7%
MSCI Europe	-14.5%	-17.6%	1.2%	2.2%
MSCI Emerging Markets	-11.4%	-25.3%	0.6%	2.2%
MSCI Emerging Markets Small Cap	-16.4%	-20.7%	5.8%	3.5%
MSCI China	3.4%	-31.8%	-0.6%	2.1%
Alternative	Quarter	1 Year	3 Yrs	5 Yrs
HFRI Equity Hedge	-8.3%	-12.5%	6.3%	5.5%
HFRI Emerging Markets	-8.0%	-16.5%	2.1%	2.3%
HFRI ED: Activist	-15.9%	-18.6%	3.0%	1.7%
HFRI ED: Merger Arbitrage	-3.1%	0.2%	5.7%	4.9%

Private equity deal activity—confirmed and estimated—totaled \$234 billion in the second quarter, a 21% drop from the first quarter, according to PitchBook data; during this time, exit activity was relatively stable but significantly lower relative to 2021 levels. U.S. venture capital firms raised \$122 billion in the first half of the year, already within striking distance of the \$139 billion raised in 2021. However, deal value and the number of deals were down in the second quarter as investors anticipate a revaluation in the current environment.

GLOBAL FIXED INCOME

Volatility reigned in fixed-income markets in the second quarter, as headline CPI surged to 9.1%, hitting a 40-year high. In response, the Federal Reserve boosted the Fed Funds rate by 75 basis points in June—its largest move since 1994—while signaling a willingness to take a tough stance on inflation even at the expense of economic growth. Against this backdrop, the 10-year Treasury yield peaked at 3.47% on June 14—its highest reading since 2011—before ending the quarter at 3.02%. In addition, the yield curve flattened, with 10- and two-year spreads just above zero at the end of the second quarter.

Investment-grade corporate spreads widened 39 basis points in the three months ended June 30, while agency mortgage spreads widened 22 basis points. As a result, the Bloomberg Aggregate Bond Index declined 4.7% in the second quarter, bringing year-to-date losses to 10.3%, the weakest six-month start to a year since inception.

High-yield bonds also fared poorly amid widening credit spreads, down 9.8% in the second quarter, bringing year-to-date losses to 14.2% – a record low in performance for the first half of a year. Leveraged loans were in the red too, losing 5.3% in the second quarter.

Global Fixed-Income Market Returns as of 6/30/2022				
Global Fixed Income	Quarter	1 Year	3 Yrs	5 Yrs
BBG Global Aggregate	-8.3%	-15.2%	-3.2%	-0.6%
JPM EMBI Global Diversified	-11.4%	-21.2%	-5.2%	-1.2%
JPM GBI-EM Global Diversified	-8.6%	-19.3%	-5.8%	-2.3%
Domestic Fixed Income	Quarter	1 Year	3 Yrs	5 Yrs
BBG Aggregate Bond	-4.7%	-10.3%	-0.9%	0.9%
BBG Municipal Bond	-2.9%	-8.6%	-0.2%	1.5%
BBG TIPS	-6.1%	-5.1%	3.0%	3.2%
BBG US Treasury	-3.8%	-8.9%	-0.9%	0.7%
BBG US Long Treasury	-11.9%	-18.5%	-2.9%	0.5%
BBG MBS	-4.0%	-9.0%	-1.4%	0.4%
BBG US Credit	-6.9%	-13.6%	-1.0%	1.2%
BBG US Long Credit	-12.6%	-21.4%	-2.4%	1.1%
BBG High Yield	-9.8%	-12.8%	0.2%	2.1%
BBG Muni High Yield	-5.6%	-10.4%	1.1%	3.6%
S&P LSTA Lev. Loan	-5.3%	-4.2%	1.4%	2.4%
BBG T-Bills	0.1%	0.0%	0.6%	1.1%
Alternative	Quarter	1 Year	3 Yrs	5 Yrs
HFRI ED: Distressed/Restructuring	-3.1%	-1.0%	7.6%	5.7%
HFRI Relative Value	-2.9%	-1.3%	3.5%	3.6%

REAL ASSETS

Public real assets retreated significantly in the second quarter. Initially buoyed by robust equity markets and the supply shocks caused by the Russian war in Ukraine, commodity prices are now falling. The Bloomberg Commodity Index was down 5.7% in the three months ended June 30, its weakest quarterly return since the start of the COVID-19 pandemic. Gold prices also fell, losing 6.7% in the second quarter. That said, energy commodities are still going strong, with crude oil and natural gas prices up more than 40% over the trailing 12-month time period.

Real Asset Returns as of 6/30/2022				
	Quarter	1 Year	3 Yrs	5 Yrs
Bloomberg Commodity	-5.7%	24.3%	14.3%	8.4%
GSCI Commodity	2.0%	45.0%	14.7%	11.7%
Gold Spot	-6.7%	2.1%	11.4%	7.8%
WTI Crude Oil Spot	5.2%	43.9%	25.4%	18.1%
BBG Commodity - Agriculture	-5.7%	18.9%	18.8%	6.9%
BBG Commodity - Energy	7.0%	66.6%	11.7%	10.0%
BBG Commodity - Industrial Metals	-26.4%	0.2%	11.9%	7.5%
BBG Commodity - Precious Metals	-10.5%	-4.8%	7.2%	5.6%
S&P Global Natural Resource Equities	-15.6%	2.9%	8.6%	8.9%
NAREIT Composite Index	-14.7%	-6.7%	4.7%	6.3%
NAREIT Global REIT Index	-17.0%	-10.1%	0.6%	3.3%
Alerian Midstream Index	-8.6%	11.4%	6.4%	5.2%

In real estate, rising interest rates are driving down valuations across the board. The NAREIT Composite REIT Index lost 14.7% in the second quarter, bringing year-to-date losses to 19.2% and the one-year return to -6.7%.

Private real estate returns moderated in the second quarter, with the NCREIF ODCE posting a 4.8% preliminary gross return. Rising interest rates continue to present challenges for the sector, though sustained growth in rental rates for industrial (and, to a lesser extent, multifamily) helped to keep returns positive for the quarter.

DISCLAIMERS

Past performance is no guarantee of future results.

All investments carry some level of risk. Diversification and other asset allocation techniques do not ensure profit or protect against losses.

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