STREET SMARTS: READING THE GDP TEA LEAVES

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With a slew of macroeconomic data slated to be released this week, we ask Phillip Nelson, NEPC's head of Asset Allocation, what really matters. Landing on September 29 and 30: The Bureau of Economic Analysis will release statistics on gross domestic product (GDP), consumer spending and saving, price indexes and various other economic measures.

1. With the third GDP estimate set to be released this week, is NEPC expecting a specific increase or decrease? What do you think this number will tell us about the overall health of the U.S. economy?

Our #1 focus when we look at the quarterly GDP numbers is sifting through the underlying data to see the changes in consumer spending and consumption. We are looking to find out how the Federal Reserve's monetary tightening is affecting consumer demand in the last quarter.

2. Does NEPC believe we are heading towards a recession? If so, what are the three most important things institutions can be doing now to protect their portfolio?

We think the economy is headed for quite a bit of turbulence and higher interest rates will reveal cracks in the U.S. economy and beyond.

The top three things investors should be looking to do: make sure they have enough liquidity to manage portfolios in times of stress, look for higher-quality investments that offer a relative safe haven such as short-term investment-grade bonds and Treasuries, and holding equity exposure below long-term targets.

3. Following the Fed raising interest rates on September 21, what will this GDP estimate's potential impact be on the market and overall investor sentiment?

Investors are struggling to extrapolate how far the Fed will go with its rate increases and, once it reaches that peak, when the central bank will start to bring rates down again. The markets largely view GDP reports as a secondary signal relative to news from the Fed and the outlook for the U.S. dollar.

IMPORTANT DISCLOSURES

Past performance is no guarantee of future results.

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

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