



# QUARTERLY ASSET CLASS REVIEW

NEPC Research

Third Quarter 2022

## GLOBAL EQUITIES

The selloff in equities continued into the third quarter as heightened geopolitical concerns, high inflation, and a hawkish stance from central banks around the world underscored concerns around an economic slowdown. International equities experienced the steepest declines for the three months ended September 30; their performance was exacerbated, in part, by the strengthening U.S. dollar. Chinese stocks, in particular, had a rough quarter with the MSCI China Index down 22.5%.

Taking a cue from publicly traded markets, private equity activity was subdued in the third quarter. While fundraising kept pace with the outsized levels of 2021 for the first six months of this year, both fundraising and deal activity slowed significantly in the third quarter as investors reassessed macroeconomic conditions and the market environment. Fundraising totaled \$148 billion in the third quarter, according to data from Preqin.

Although valuations are yet to fully reset, the late-stage venture market has felt the slow down, with crossover investors—public-market investors and hedge funds—deploying

### Global Equity Market Returns as of 9/30/2022

| Global Equity                   | Quarter | 1 Year | 3 Yrs | 5 Yrs |
|---------------------------------|---------|--------|-------|-------|
| MSCI ACWI                       | -6.8%   | -20.7% | 3.7%  | 4.4%  |
| US Equity                       | Quarter | 1 Year | 3 Yrs | 5 Yrs |
| S&P 500                         | -4.9%   | -15.5% | 8.2%  | 9.2%  |
| Russell 1000 Growth             | -3.6%   | -22.6% | 10.7% | 12.2% |
| Russell 1000 Value              | -5.6%   | -11.4% | 4.4%  | 5.3%  |
| Russell 2000                    | -2.2%   | -23.5% | 4.3%  | 3.6%  |
| Russell 2000 Growth             | 0.2%    | -29.3% | 2.9%  | 3.6%  |
| Russell 2000 Value              | -4.6%   | -17.7% | 4.7%  | 2.9%  |
| International Equity            | Quarter | 1 Year | 3 Yrs | 5 Yrs |
| MSCI EAFE                       | -9.4%   | -25.1% | -1.8% | -0.8% |
| MSCI EAFE Hedged USD            | -3.6%   | -11.1% | 2.5%  | 2.8%  |
| MSCI EAFE Small Cap             | -9.8%   | -32.1% | -2.2% | -1.8% |
| MSCI Europe                     | -10.1%  | -24.8% | -1.7% | -1.2% |
| MSCI Emerging Markets           | -11.6%  | -28.1% | -2.1% | -1.8% |
| MSCI Emerging Markets Small Cap | -5.3%   | -23.2% | 5.5%  | 1.3%  |
| MSCI China                      | -22.5%  | -35.4% | -7.2% | -5.6% |
| Alternative                     | Quarter | 1 Year | 3 Yrs | 5 Yrs |
| HFRI Equity Hedge               | -2.3%   | -13.2% | 6.2%  | 4.4%  |
| HFRI Emerging Markets           | -5.2%   | -17.1% | 1.9%  | 0.8%  |
| HFRI ED: Activist               | -2.6%   | -19.6% | 2.1%  | 0.9%  |
| HFRI ED: Merger Arbitrage       | 2.6%    | 2.2%   | 6.3%  | 5.3%  |

fewer dollars for a fourth consecutive quarter. For the three months ended September 30, deal activity across U.S. private equity, at \$186 billion, was the lowest since 2020, according to data from PitchBook. Similarly, deal value across venture capital, totaling \$43 billion, hit a new low since 2020, according to data from PitchBook.

## GLOBAL FIXED INCOME

Doubling down on its commitment to rein in inflation even at the expense of economic growth, the Federal Reserve boosted the Fed Funds rate by 75 basis points in September—its fifth rate hike this year—bringing the benchmark rate to 3%-3.25%. The yield on the 10-year Treasury touched 4% and projections for the year-end Fed Funds Rate rose 100 basis points to 4.38%. The central bank's aggressive stance sent fixed-income and credit markets to new lows. High-grade debt was particularly hard hit: Treasuries, mortgage-backed securities and corporate bonds were down between 4.3% and 5.3% in the third quarter. With year-to-date losses at 14.6% for the BBG Aggregate Index, 2022 is on track to be the worst performing year in the Index's 45-year history.

High-yield corporate debt fared modestly better, as spreads had previously widened to stressed levels. There is marked performance dispersion by rating, with lower-rated bonds and loans—CCCs in particular—significantly underperforming, reflecting investors' concern around credit worthiness. The leveraged loan market was the best relative performer with total losses for the year totaling 3.9%. Corporate debt defaults have ticked up from their historic lows, but remain well below average, with the 12-month default rate for bonds and loans at 0.83% and 1.14%, respectively.

| Global Fixed-Income Market Returns as of 9/30/2022 |         |        |       |       |
|--|---------|--------|-------|-------|
| Global Fixed Income                                | Quarter | 1 Year | 3 Yrs | 5 Yrs |
| BBG Global Aggregate                               | -6.9%   | -20.4% | -5.7% | -2.3% |
| JPM EMBI Global Diversified                        | -4.6%   | -24.3% | -7.2% | -2.6% |
| JPM GBI-EM Global Diversified                      | -4.7%   | -20.6% | -7.1% | -3.9% |
| Domestic Fixed Income                              | Quarter | 1 Year | 3 Yrs | 5 Yrs |
| BBG Aggregate Bond                                 | -4.8%   | -14.6% | -3.3% | -0.3% |
| BBG Municipal Bond                                 | -3.5%   | -11.5% | -1.9% | 0.6%  |
| BBG TIPS   | -5.1%   | -11.6% | 0.8%  | 2.0%  |
| BBG US Treasury                                    | -4.3%   | -12.9% | -3.1% | -0.2% |
| BBG US Long Treasury                               | -9.6%   | -26.6% | -8.5% | -1.6% |
| BBG MBS  | -5.3%   | -14.0% | -3.7% | -0.9% |
| BBG US Credit                                      | -4.9%   | -17.9% | -3.6% | 0.0%  |
| BBG US Long Credit                                 | -8.6%   | -28.0% | -7.0% | -1.2% |
| BBG High Yield                                     | -0.6%   | -14.1% | -0.5% | 1.6%  |
| BBG Muni High Yield                                | -4.8%   | -15.1% | -1.4% | 2.3%  |
| S&P LSTA Lev. Loan                                 | 1.3%    | -3.9%  | 1.4%  | 2.5%  |
| BBG T-Bills  | 0.4%    | 0.4%   | 0.6%  | 1.1%  |
| Alternative  | Quarter | 1 Year | 3 Yrs | 5 Yrs |
| HFRI Credit Index                                  | -0.5%   | -4.0%  | 3.9%  | 3.5%  |
| HFRI ED: Credit Arbitrage                          | -3.6%   | -8.7%  | 1.6%  | 3.3%  |
| HFRI ED: Distressed/Restructuring                  | -2.8%   | -5.7%  | 6.5%  | 4.5%  |
| HFRI Relative Value                                | 0.3%    | -1.7%  | 3.6%  | 3.4%  |

## REAL ASSETS

Real assets tumbled in the third quarter. The Bloomberg Commodity Index posted its second consecutive quarterly loss of 4.1%, ceding gains earned during the start of the year. Crude oil prices—initially bolstered by supply constraints caused by the Russia-Ukraine war—suffered a hefty 26.2% drawdown. Gold prices also faltered, losing 8.1% in the three months ended September 30.

Global natural resources fell significantly during the quarter, with the metals and mining, energy and agriculture sub-indexes recording declines. The S&P Global Infrastructure Index fell 9.6% in the third quarter. Despite their recent struggles, NEPC maintains a favorable view of global infrastructure due to the potential for elevated inflation.

In real estate, the FTSE NAREIT Equity REITs Index lost 10.8% in the third quarter, bringing year-to-date losses to 28.6%. While low interest rates had boosted REITs, rising rates are driving down valuations across the board. Though all segments of the REIT market have been in the red in 2022, dispersion among the underlying property types persists. Office and malls have lagged, while industrial, residential and self-storage sectors have provided the most value for investors.

In private real estate, returns continued to moderate in the third quarter, with the NCREIF ODCE posting a 0.52% preliminary gross return. In addition to uncertainty around the future demand for traditional office space, higher interest rates present challenges. Still, investors continue to benefit from sturdy fundamentals in industrial and residential real estate.

## 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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The opinions presented herein represent the good faith views of NEPC as of the date of this report and are subject to change at any time.

### Real Asset Returns as of 9/30/2022

|                                      | Quarter | 1 Year | 3 Yrs | 5 Yrs |
|--------------------------------------|---------|--------|-------|-------|
| Bloomberg Commodity                  | -4.1%   | 11.8%  | 13.5% | 7.0%  |
| GSCI Commodity                       | -10.3%  | 23.6%  | 12.2% | 7.8%  |
| Gold Spot                            | -8.1%   | -5.5%  | 4.1%  | 4.7%  |
| WTI Crude Oil Spot                   | -26.2%  | 5.7%   | 13.7% | 10.9% |
| BBG Commodity - Agriculture          | -0.2%   | 19.9%  | 21.3% | 8.2%  |
| BBG Commodity - Energy               | -5.4%   | 30.3%  | 11.4% | 6.8%  |
| BBG Commodity - Industrial Metals    | -7.3%   | -9.0%  | 8.2%  | 3.9%  |
| BBG Commodity - Precious Metals      | -7.6%   | -7.8%  | 2.6%  | 3.5%  |
| S&P Global Natural Resource Equities | -4.6%   | 1.0%   | 9.1%  | 5.7%  |
| NAREIT Composite Index               | -11.2%  | -17.2% | -1.7% | 3.5%  |
| NAREIT Global REIT Index             | -10.8%  | -19.7% | -5.0% | 0.7%  |
| Alerian Midstream Index              | -1.0%   | 11.7%  | 6.7%  | 5.0%  |

