



NEPC MARKET OUTLOOK

A NEW INVESTMENT LANDSCAPE

JANUARY 26, 2023



SPEAKERS



Phillip Nelson, CFA

Partner, Head of Asset
Allocation



**Michael Manning,
CFA CAIA**

Managing Partner



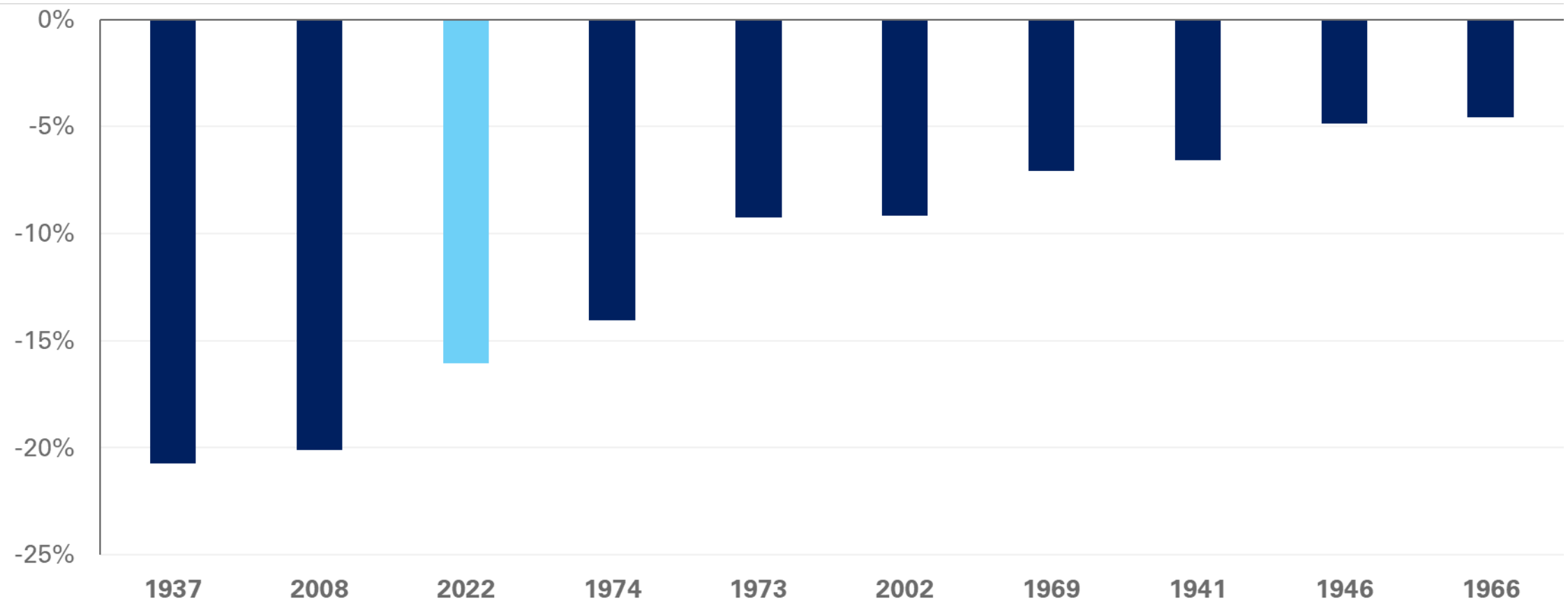
NEPC UPDATE



PROPRIETARY & CONFIDENTIAL

2022 WAS CHALLENGING FOR INVESTORS

WORST ANNUAL RETURNS: 60/40 PORTFOLIO



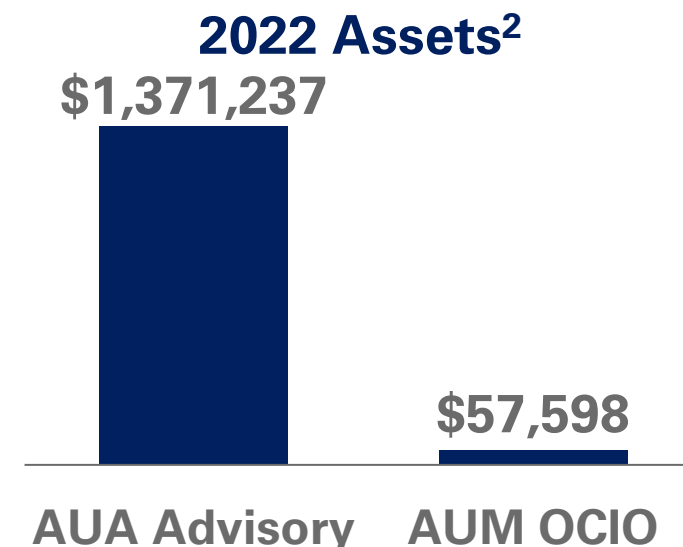
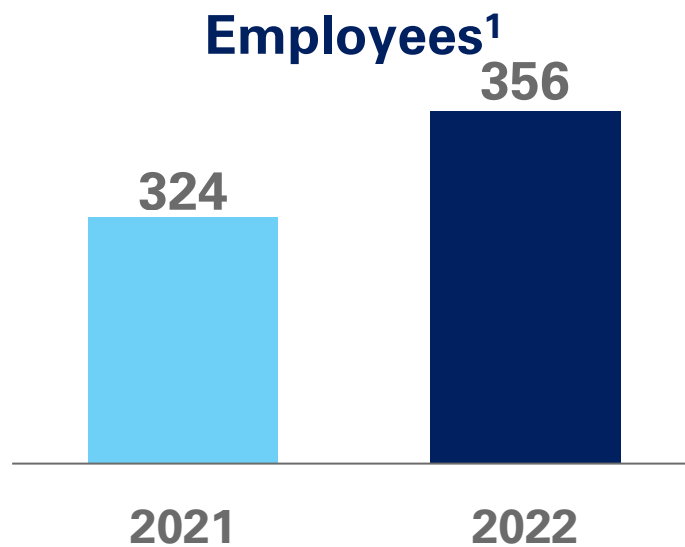
60/40 Portfolio represents 60% S&P 500 and 40% U.S. Aggregate Bonds (post 1975) and 40% Treasury (prior to 1974)

Data calculated from 12/31/1936

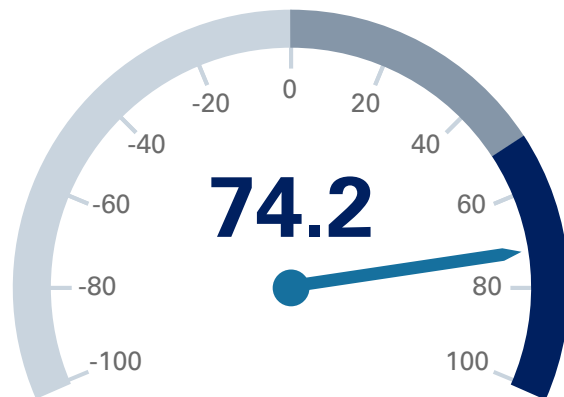
Sources: S&P, Bloomberg, FactSet



2022 NEPC HIGHLIGHTS



**NEPC
NPS SCORE³**



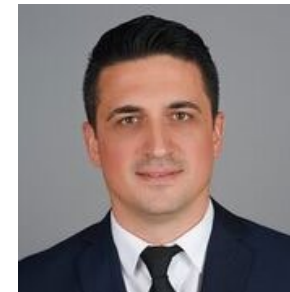
NPS scores of 50 and above are considered **excellent**



¹As of 12/31/2022 ²As of 10/1/2022. Assets in millions. AUA = Assets Under Advisement (advisory mandates). AUM = Assets Under Management (OCIO/Discretionary mandates)
³In May 2022, NEPC received an NPS score of 74.2% on a range of -100% to 100%. Any score above 0% indicates more promoters than detractors.

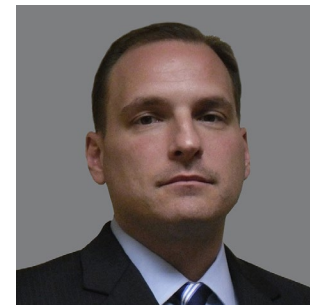
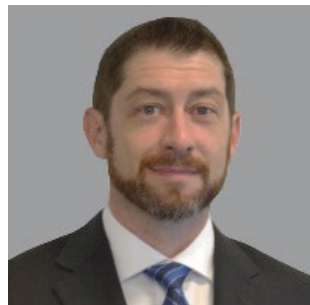
NEW NEPC PARTNERS

- **Joshua Beers**
- **Sebastian Grzejka**
- **Kellie Kane**
- **Matthew Lombardi**
- **Dulari Pancholi**
- **Kelly Regan**
- **Matthew Ritter**
- **Elton Thomaj**



NEW NEPC PRINCIPALS

- Kelly Bruns
- Jason Castonguay
- Thomas Cook
- Timothy Fitzgerald
- Brandon Jones
- Ashlee Lazzari
- Alison Lonstein
- Matthew Maleri
- Heather Martone
- Joseph Nankof
- Kevin Novak
- Brian Parnell
- Shelley Santulli
- Keith Stronkowsky
- Eric Vallo



WHY NEPC

NEPC can attain the best investment and financial outcomes for our clients through a client-centric servicing experience combined with deep, specialized investment resources



INDEPENDENCE & STABILITY

- 100% employee-owned
- One of the largest independent investment consulting firms in the industry
- Leader in advisory and OCIO/discretionary services
- Focused business model, not preoccupied by conflicts



FOREMOST RESEARCH EXPERTISE

- Goal to drive better financial outcomes
- Innovators in holistic investment program management
- Significant dedicated research teams



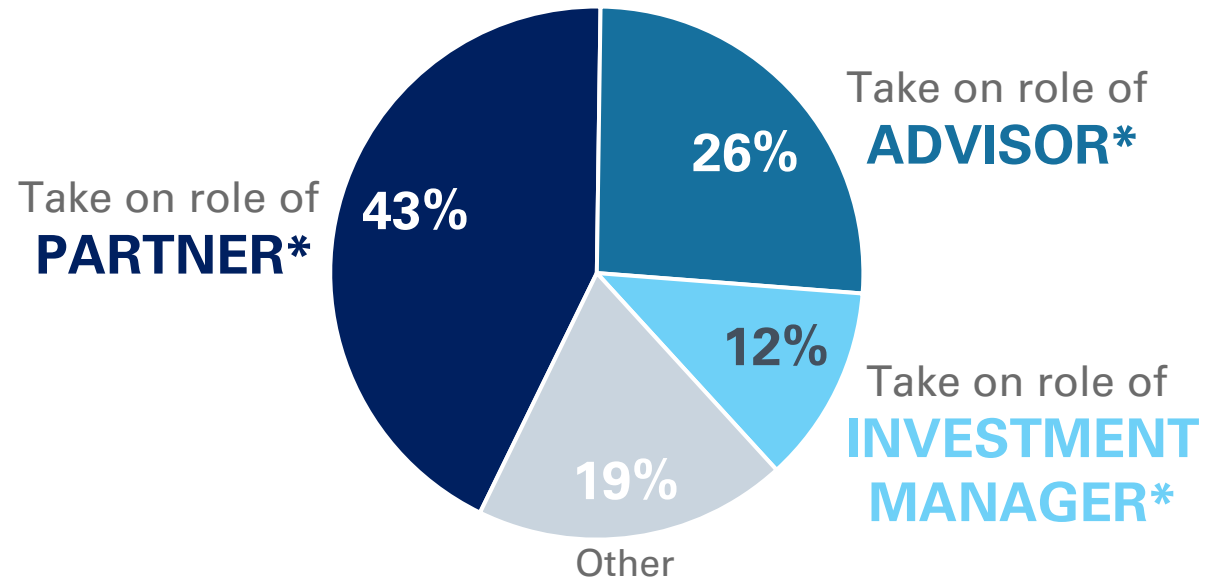
DIVERSE AND LARGE CLIENT BASE

- Expert resources to manage all aspects of investment programs
- Time-tested and proven track records of success in servicing client investment programs

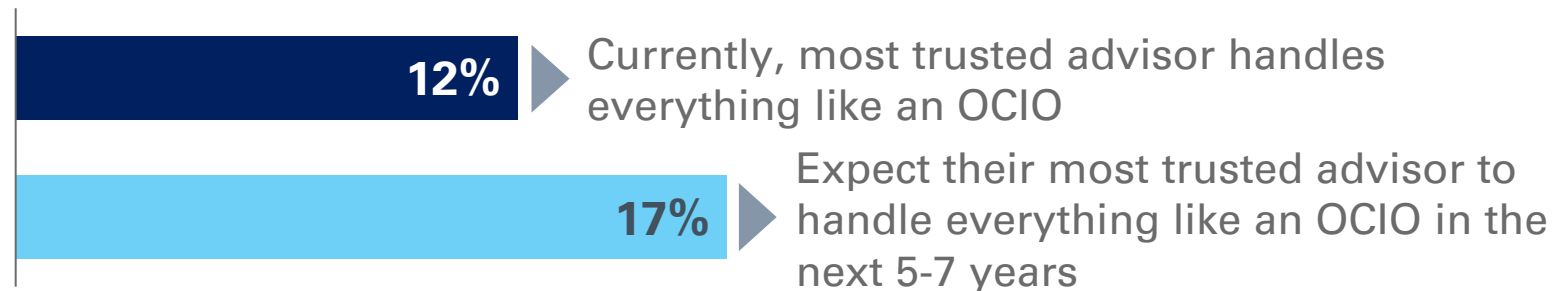
NEPC 2022 GOVERNANCE SURVEY

ASSET OWNERS SEEK TRUST IN RELATIONSHIPS

Asset owners say their most trusted advisor takes an active role with investment decisions

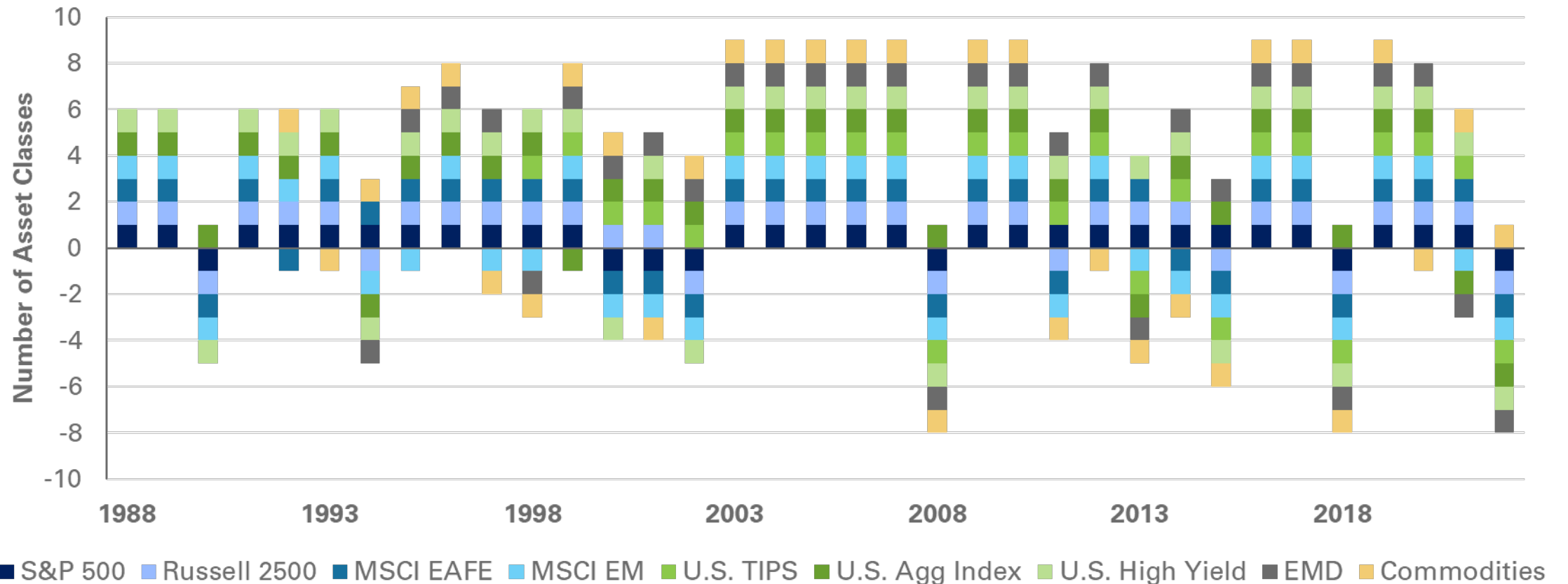


Respondents believe they will shift more to OCIO in the future



2022 WAS CHALLENGING FOR INVESTORS

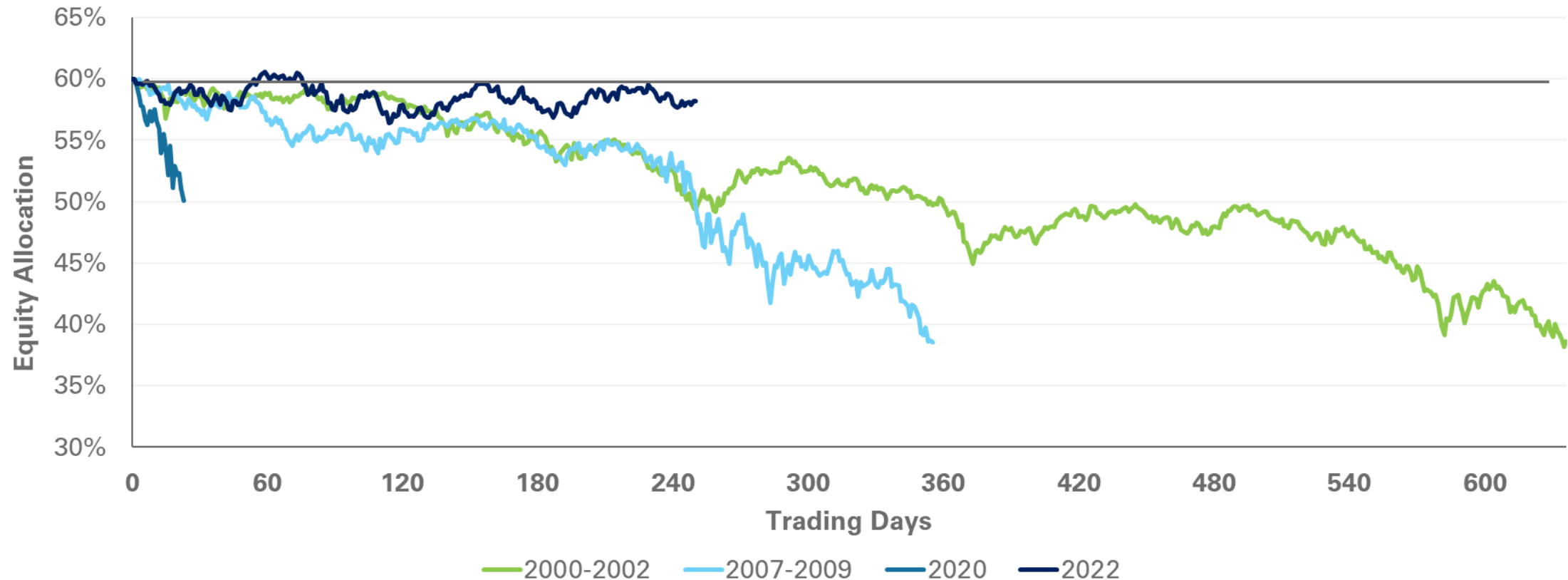
NUMBER OF POSITIVE/NEGATIVE RETURNING ASSET CLASSES



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

REBALANCING OPPORTUNITIES LIMITED IN 2022

CUMULATIVE CHANGE IN EQUITY ALLOCATION: 60/40 PORTFOLIO



Years represent peak-to-trough equity drawdowns
Starting portfolio consist of 60% S&P 500 and 40% Bloomberg U.S. Aggregate Bond
Source: S&P, Bloomberg, FactSet



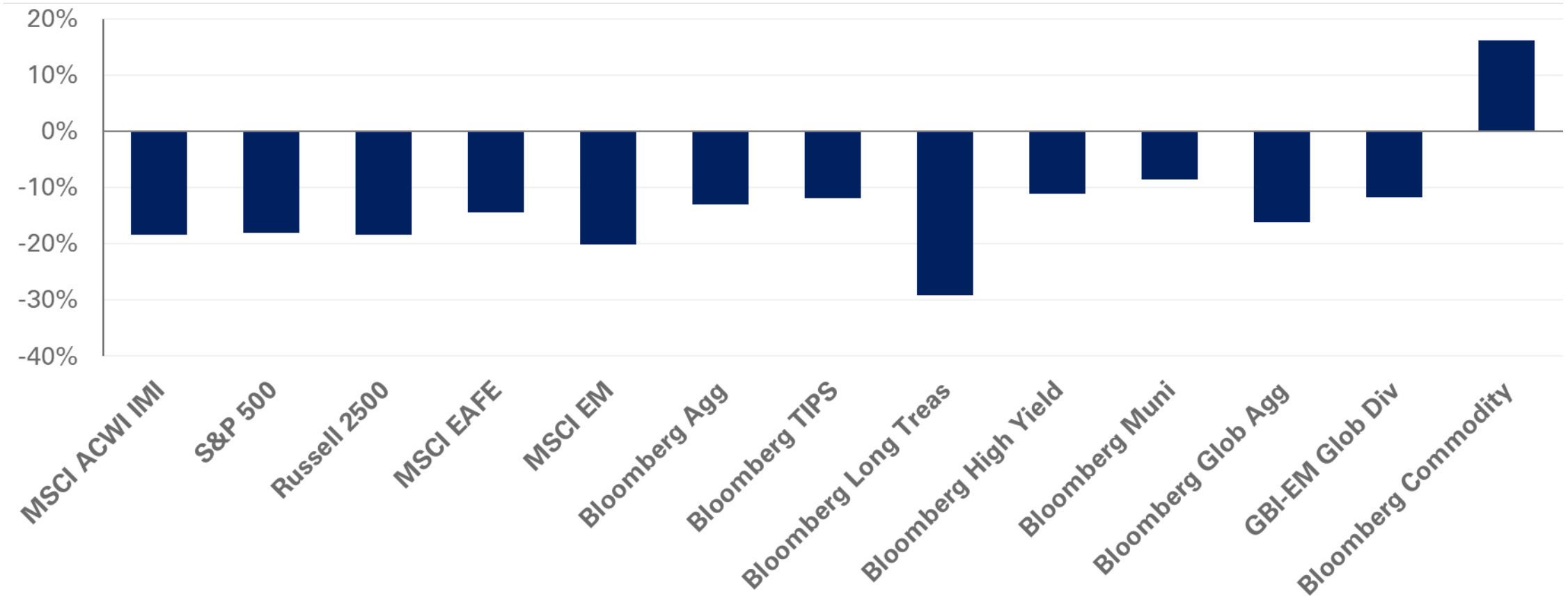
MARKET OUTLOOK



PROPRIETARY & CONFIDENTIAL

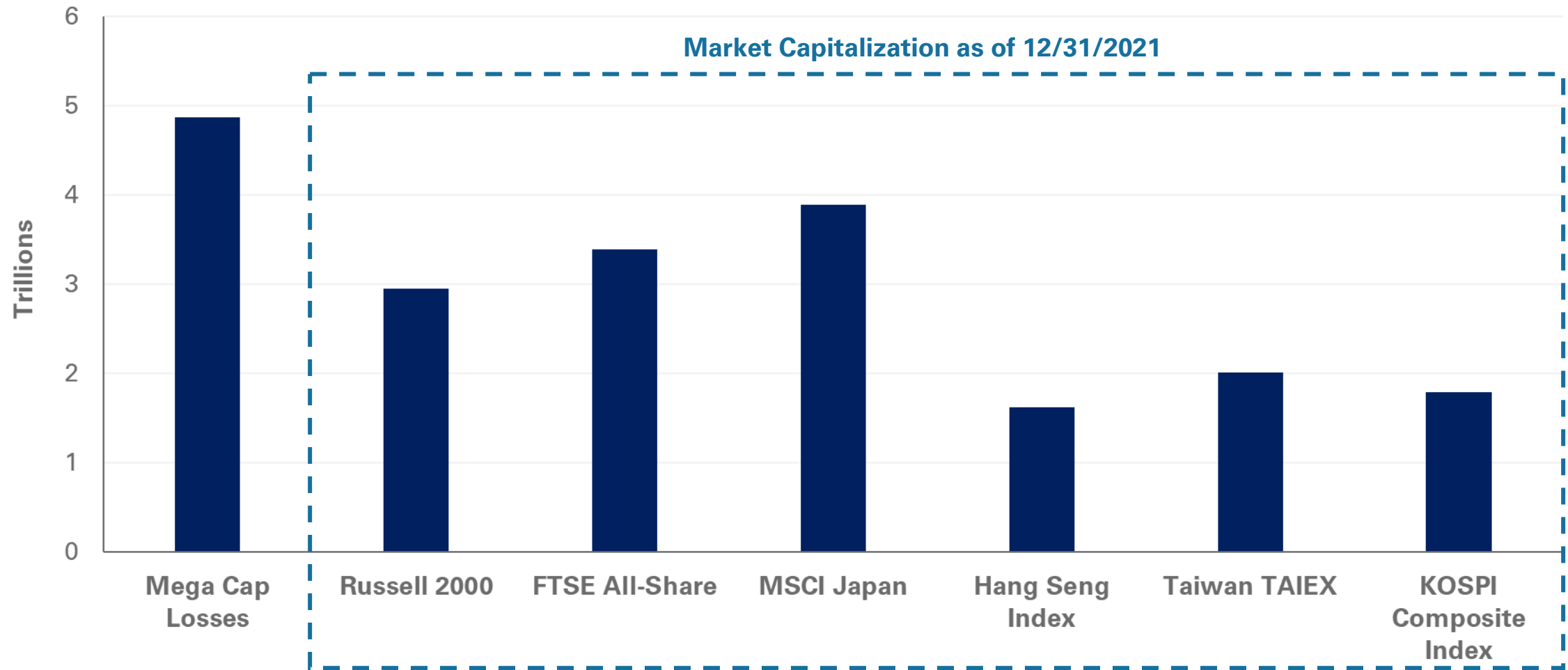
GLOBAL ASSETS BROADLY DECLINED

2022 ANNUAL ASSET CLASS RETURNS



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

MEGA-CAP LOSSES WERE SIGNIFICANT



Major Indices capitalization as of 12/31/2021;

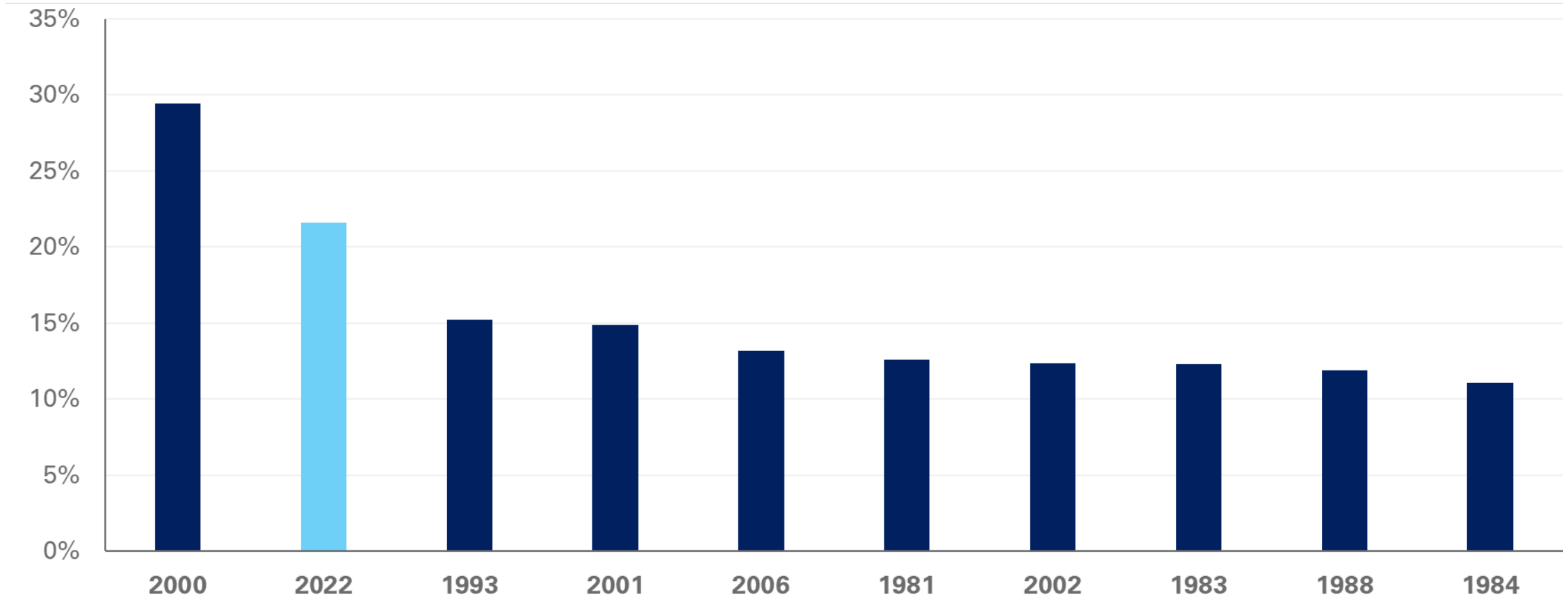
Mega Cap Losses represent 2022 losses for: Apple, Amazon, Alphabet, Meta Companies (Formerly Known as Facebook), Microsoft, NVidia, and Tesla

Sources: Russell, MSCI, FTSE, KOSPI, TAIEX, FactSet



VALUE HANDILY OUTPERFORMED GROWTH

TOP 10 TIMES RUSSELL 1000 VALUE OUTPERFORMED GROWTH

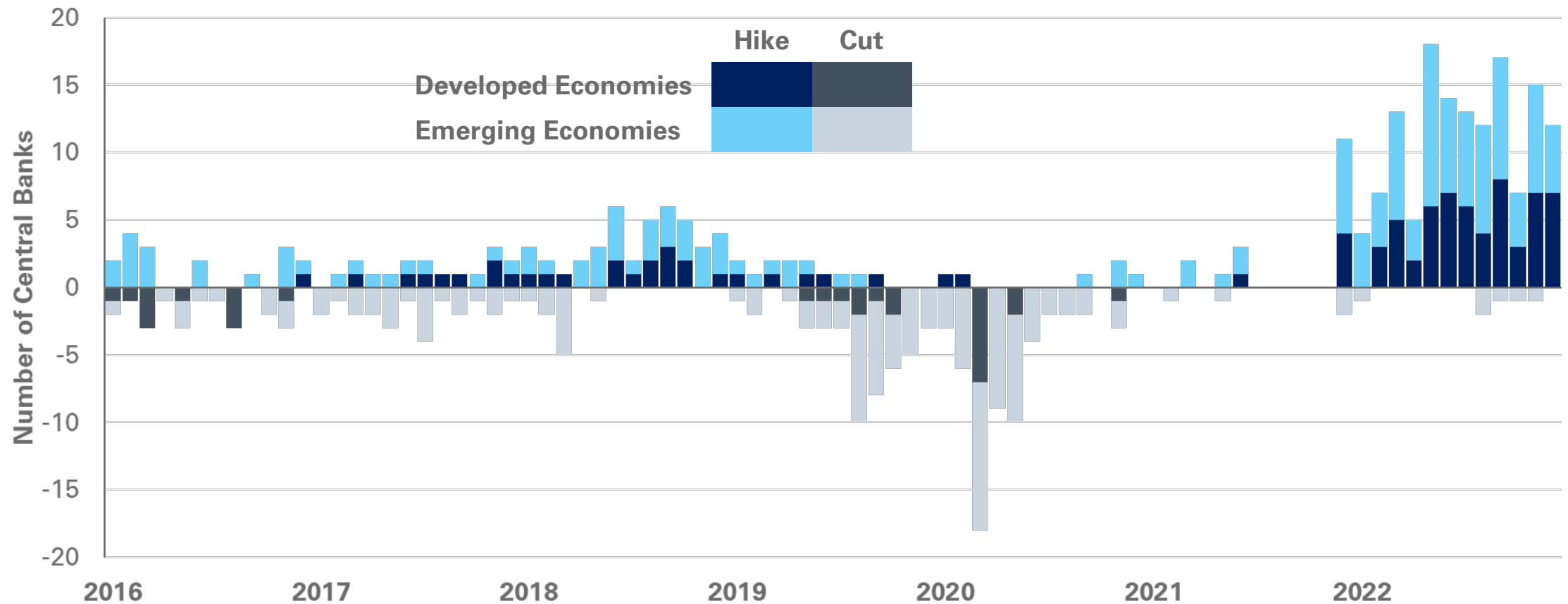


Calculated based on data as of 12/31/1979
Sources: Russell, FactSet



THE MONETARY POLICY BACKDROP IS TIGHTER

INTEREST RATE CHANGES BY GLOBAL CENTRAL BANKS



Notes: Developed Economies include Australia, Canada, countries governed by the European Central Bank, Japan, New Zealand, Norway, Sweden, Switzerland, United Kingdom, and the United States. Emerging Economies include Argentina, Brazil, Chile, China, Egypt, Ghana, India, Malaysia, Mexico, Pakistan, Peru, Philippines, South Africa, Thailand, and Turkey.
Source: FactSet



THE DOLLAR APPRECIATED SIGNIFICANTLY IN 2022

THE U.S. DOLLAR INDEX



U.S. Dollar Index represents the value of the U.S. Dollar relative to the currencies of major trade partners. The Euro, Japanese Yen, Pound Sterling, and Canadian Dollar represent the largest weights within the Index.

Source: FactSet



THE END OF THE INTEREST RATE SUPER CYCLE

U.S. TREASURY 10-YEAR YIELD



Source: FactSet

REGIME SHIFTS CHALLENGE INVESTOR BIASES

NEPC MARKET OUTLOOK

**Elevated Inflation and
Monetary Policy**

Suppressing inflation is the primary objective

**Interest Rate
Super Cycle**

The forty-year super cycle has ended

Portfolio Construction

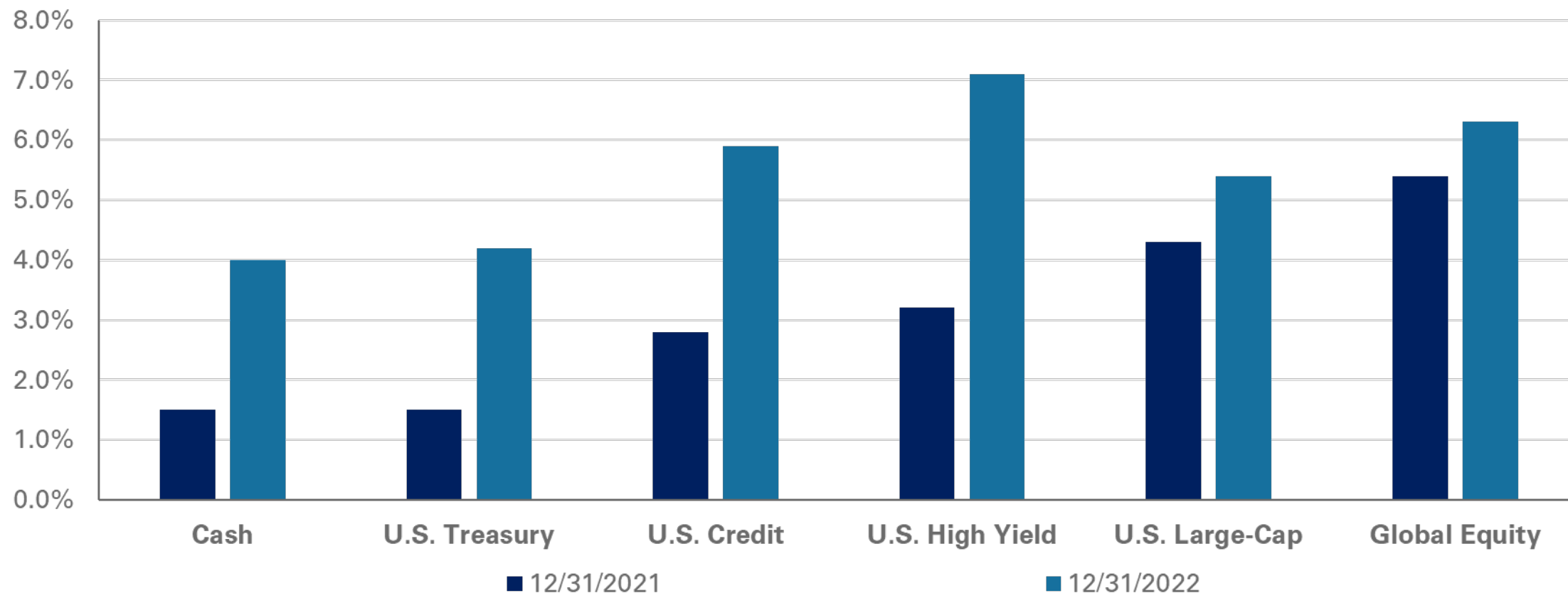
Diversifying assets now offer greater value

Geopolitical Trends

Geopolitical trends straining supply chains

2023 CAPITAL MARKET EXPECTATIONS RESET

NEPC 10-YEAR EXPECTED RETURN



Source: NEPC Capital Market Assumptions as of 12/31/2021 and 12/31/2022

2023 KEY INVESTMENT THEMES

NEPC MARKET OUTLOOK



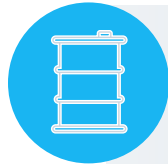
Stagflation Trends

Stagflation trends are driving market dynamics



Recession Outlook

Changes in unemployment and wages will inform the outlook of a U.S. recession



European Energy Transition

Europe is on the clock to secure new sources of natural gas supply



China Reopening

China's reopening will have global implications for growth and inflation

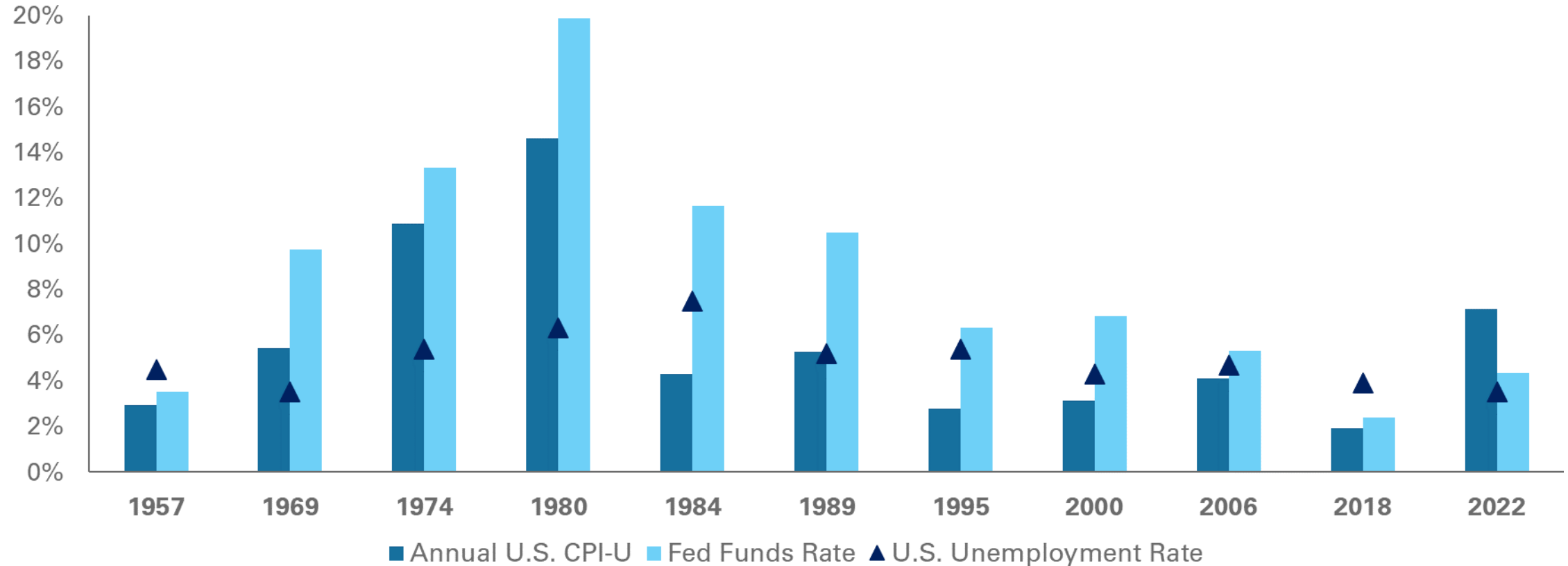


U.S. Dollar Trajectory

U.S. Dollar strength reveals risks in the global financial system

FED FUNDS EXCEEDS CPI IN TIGHTENING CYCLES

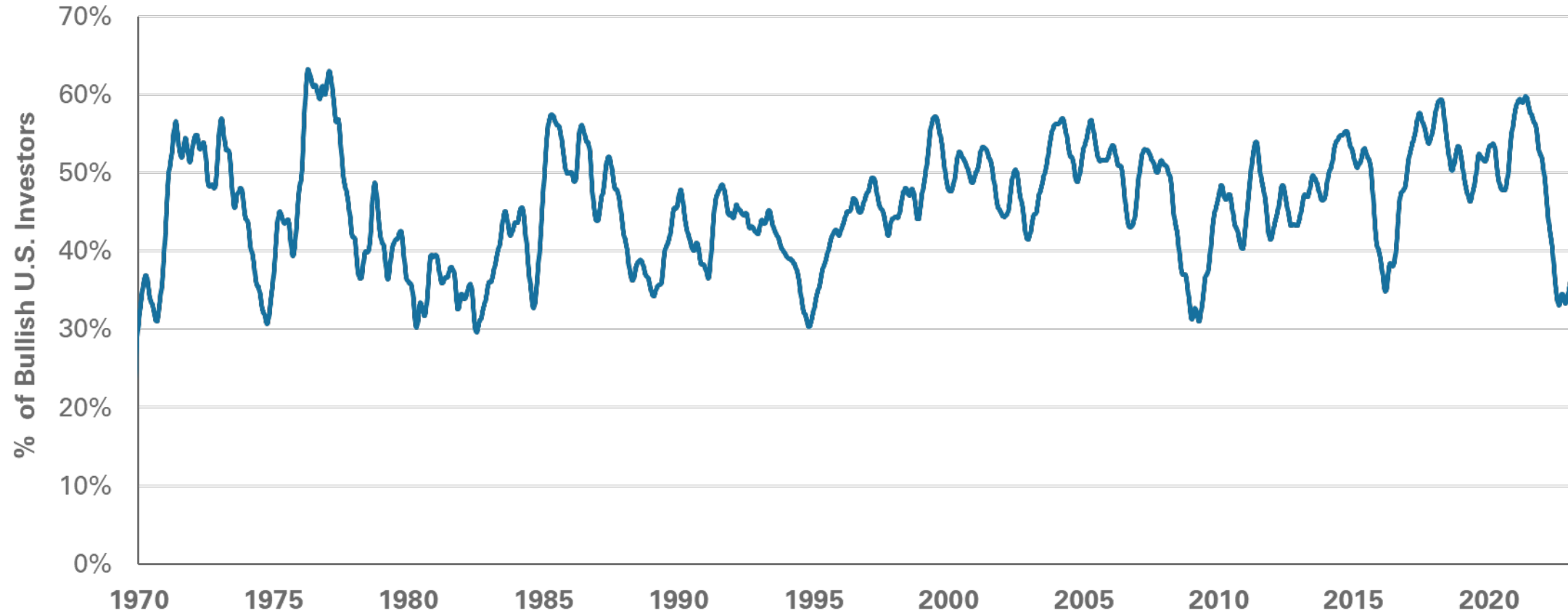
INFLATION AND FED FUNDS AT END OF POLICY TIGHTENING



Sources: U.S. Department of Labor, Federal Reserve, FactSet

INVESTOR SENTIMENT HAS DETERIORATED

INVESTORS INTELLIGENCE BULLISH SENTIMENT INDEX



Notes: Bullish Sentiment Index reflects 26 week moving average
Source: Investors Intelligence, FactSet

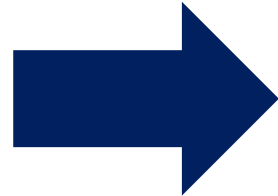


REBUILD THE DIVERSIFICATION TOOLKIT

STAGFLATION TRENDS

POTENTIAL PORTFOLIO ACTION

Tight Monetary Policy and High Discount Rates

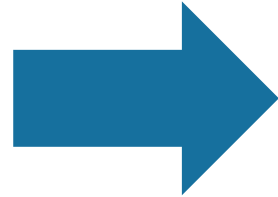


Maintain a Defensive Portfolio Bias

Shift Equity Exposure to U.S. Value

Risk-Return Benefits of Fixed Income

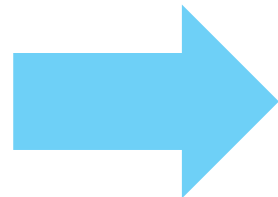
Importance of Real Returns



Identify High Carry Assets

Assess Inflation Sensitive Assets

Disruption to Portfolio Construction



Higher Stock-Bond Correlation

Hold Greater Liquidity

Review Strategic Policy Targets

ZERO-COVID POLICY RESTRICTED CHINA'S ECONOMY

MONTHLY CHINA AVIATION AND RAILWAY PASSENGER TRAFFIC



Notes: LHS and RHS denote left hand side and right hand side axis, respectively.
Sources: NBS - National Bureau of Statistics China, FactSet



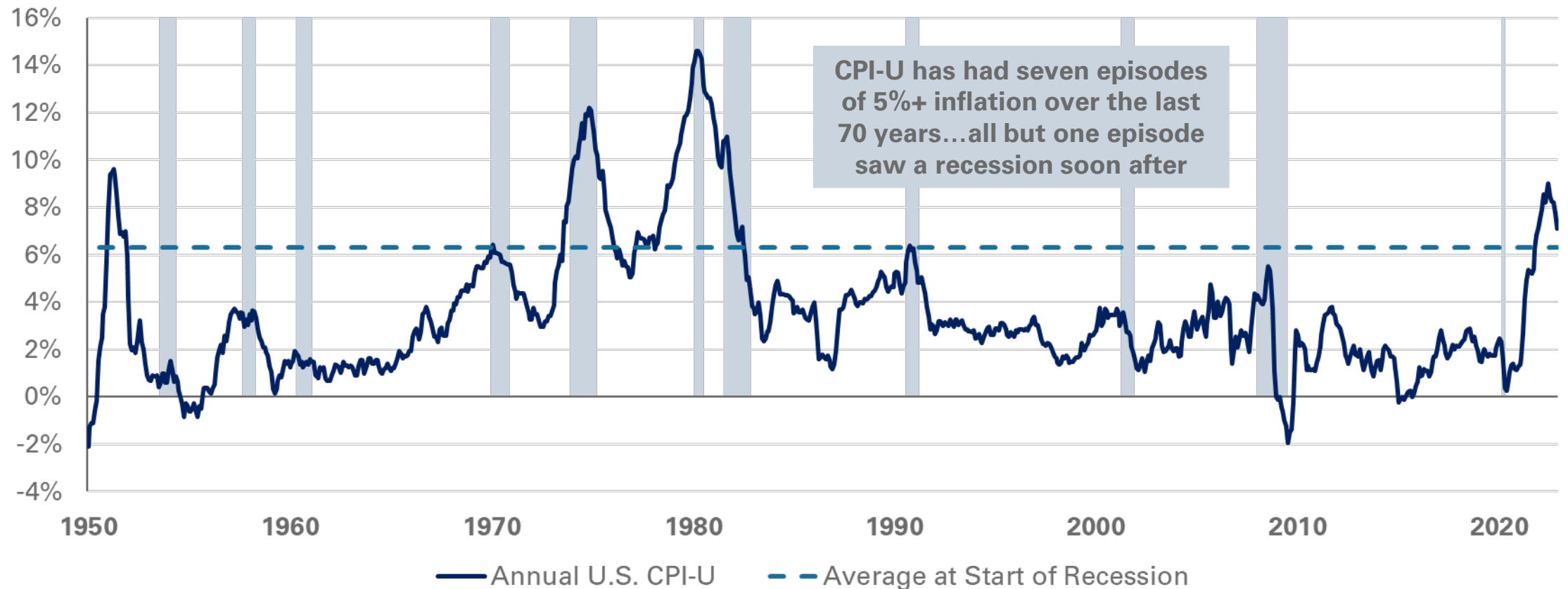
COVID BATTERED CHINA'S CONSUMER CONFIDENCE

URBAN RESIDENTS INDEX OF FUTURE INCOME CONFIDENCE



RECESSIONS TEND TO FOLLOW HIGH INFLATION

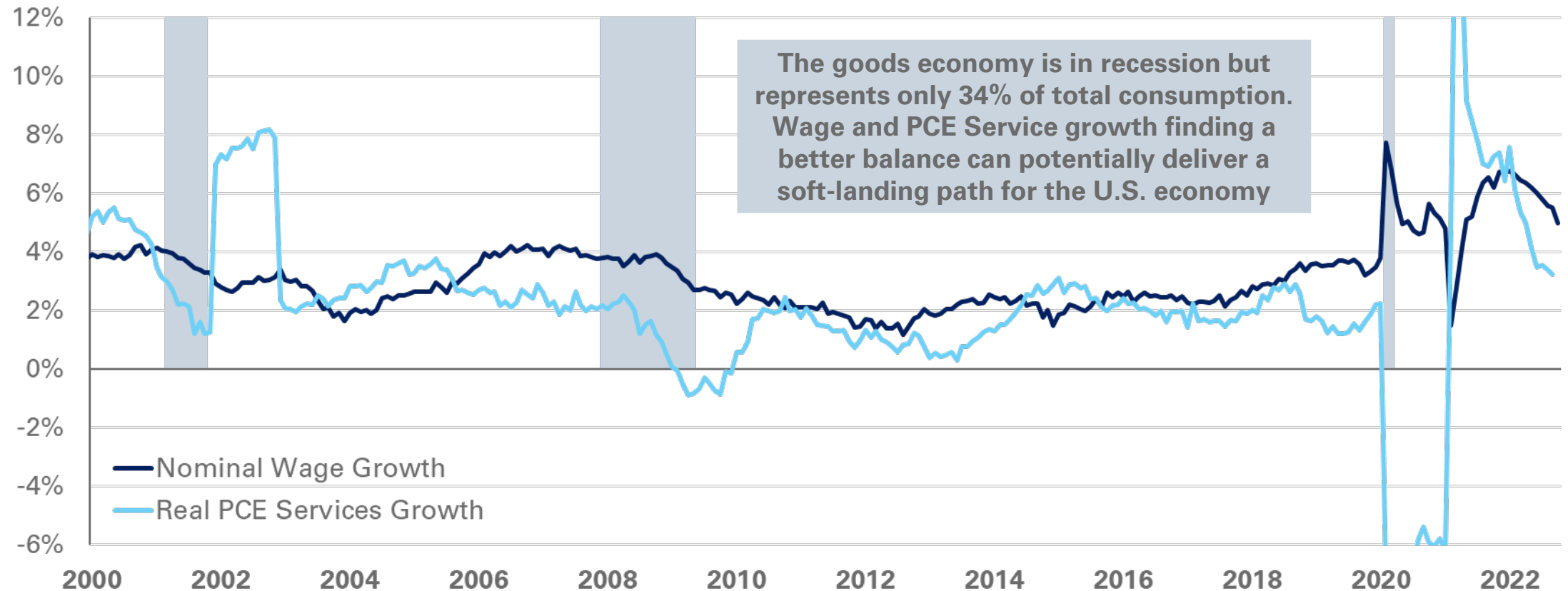
U.S. ANNUAL CPI



Notes: Shaded areas represent U.S. recessions as defined by the ECRI
Sources: Economic Cycle Research Institute, Bureau of Labor Statistics, FactSet, NEPC

WAGE AND SERVICES PATH WILL DICTATE FED POLICY

ANNUAL CHANGE IN NOMINAL WAGES AND REAL PCE



PORTFOLIO POSITIONING VIEWS



Our conviction remains high regarding U.S. large-cap value



We recommend holding high quality short-term credit



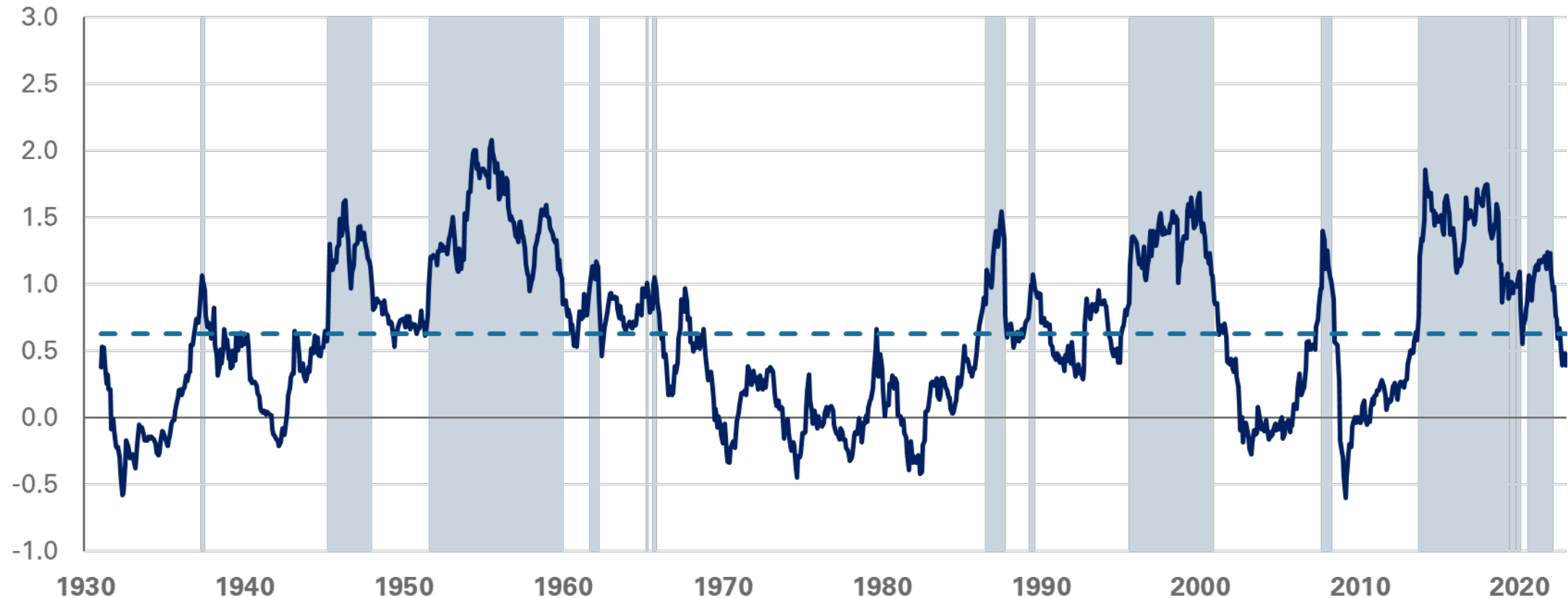
Evaluate the scope of strategic currency hedging programs



Be prepared for equity rebalance opportunities

INVESTORS EXPERIENCED A PARADIGM SHIFT

5-YEAR ROLLING SHARPE RATIO OF U.S. 60/40 PORTFOLIO



Notes: Shaded areas represent Sharpe ratio periods greater than 1.0, Dotted Line represents average Sharpe ratio
Source: FactSet, Ibbotson, NEPC

A NEW INVESTMENT LANDSCAPE

NEPC MARKET OUTLOOK



The full impact of the paradigm shift has yet to be realized



Test behavioral biases we have been conditioned to expect



Explore the portfolio benefit of diversifying asset classes



Look to hold greater levels of portfolio liquidity

QUESTIONS?





27TH INVESTMENT CONFERENCE

SAVE THE DATE

May 9 & 10, 2023

Renaissance Boston Waterfront Hotel

Dynamic Speakers ▪ Breakout Sessions ▪ Networking Opportunities

*Registration and additional details will follow in the coming weeks. Please reach out to Sarah Winrow:
swinrow@nepc.com with any questions*



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