



NEPC Q2 2021 MARKET OUTLOOK

THEMES AND OPPORTUNITIES

JULY 27, 2021

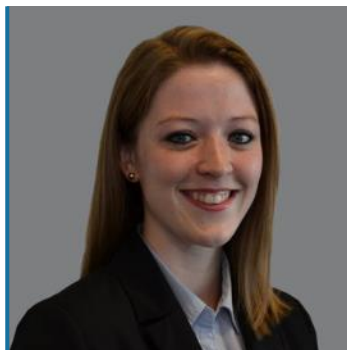


SPEAKERS



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Research Consultant

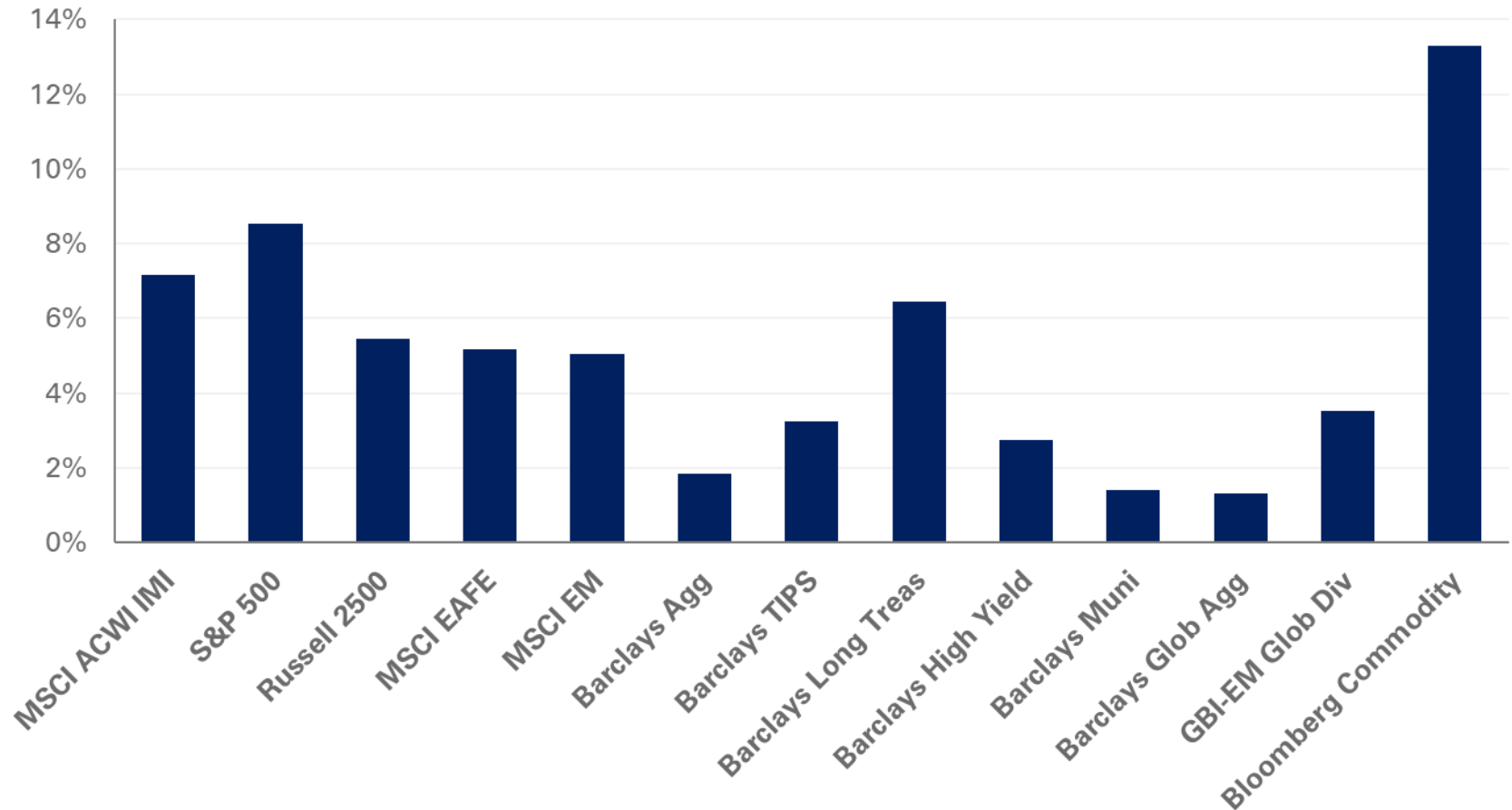
MARKETS IN REVIEW



PROPRIETARY & CONFIDENTIAL

S&P 500 OUTPERFORMED IN Q2

QUARTERLY RETURNS

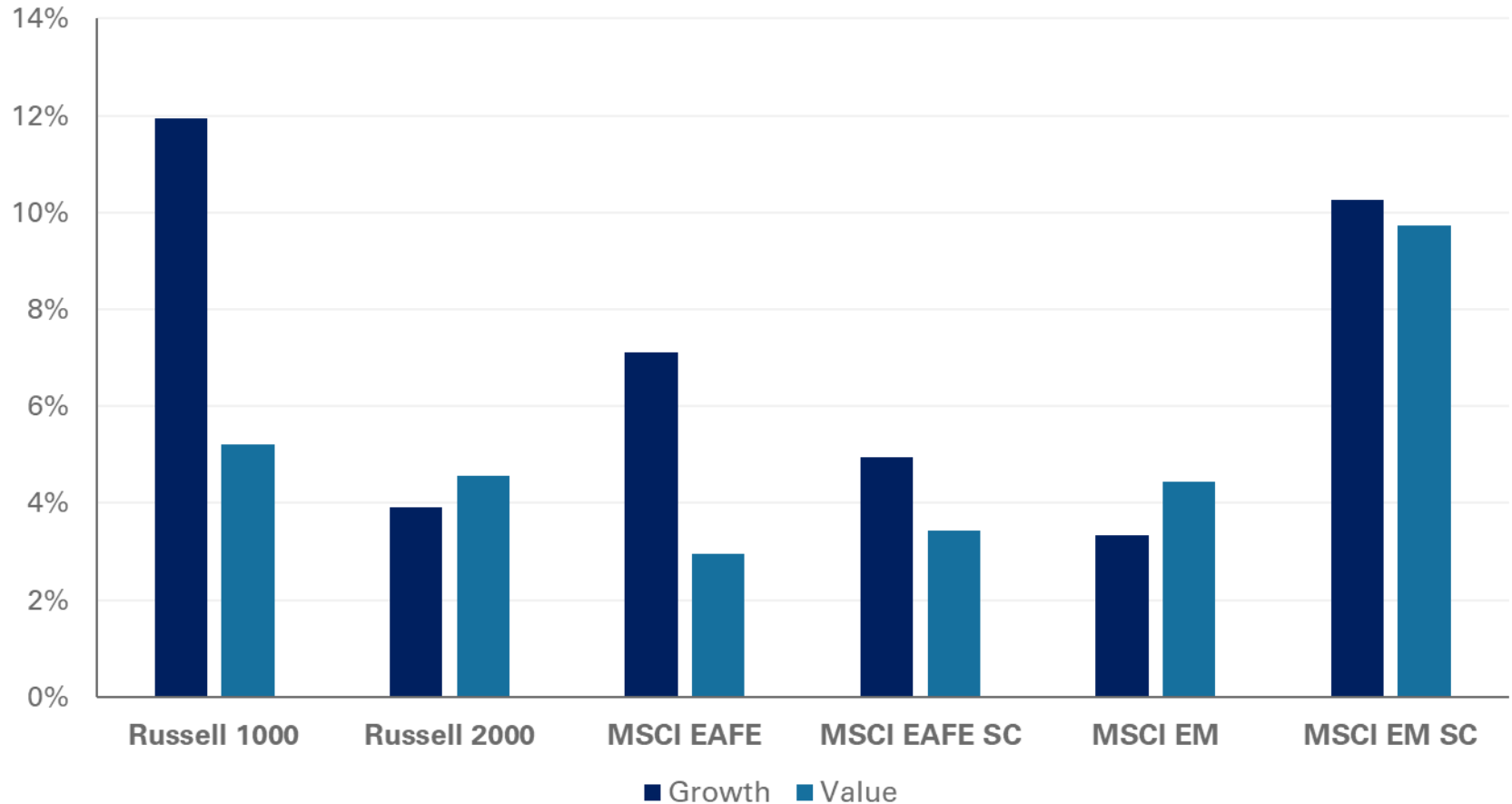


Source: MSCI, S&P, Russell, MSCI, Bloomberg, JPM, FactSet



U.S. LARGE CAP GROWTH OUTPERFORMED

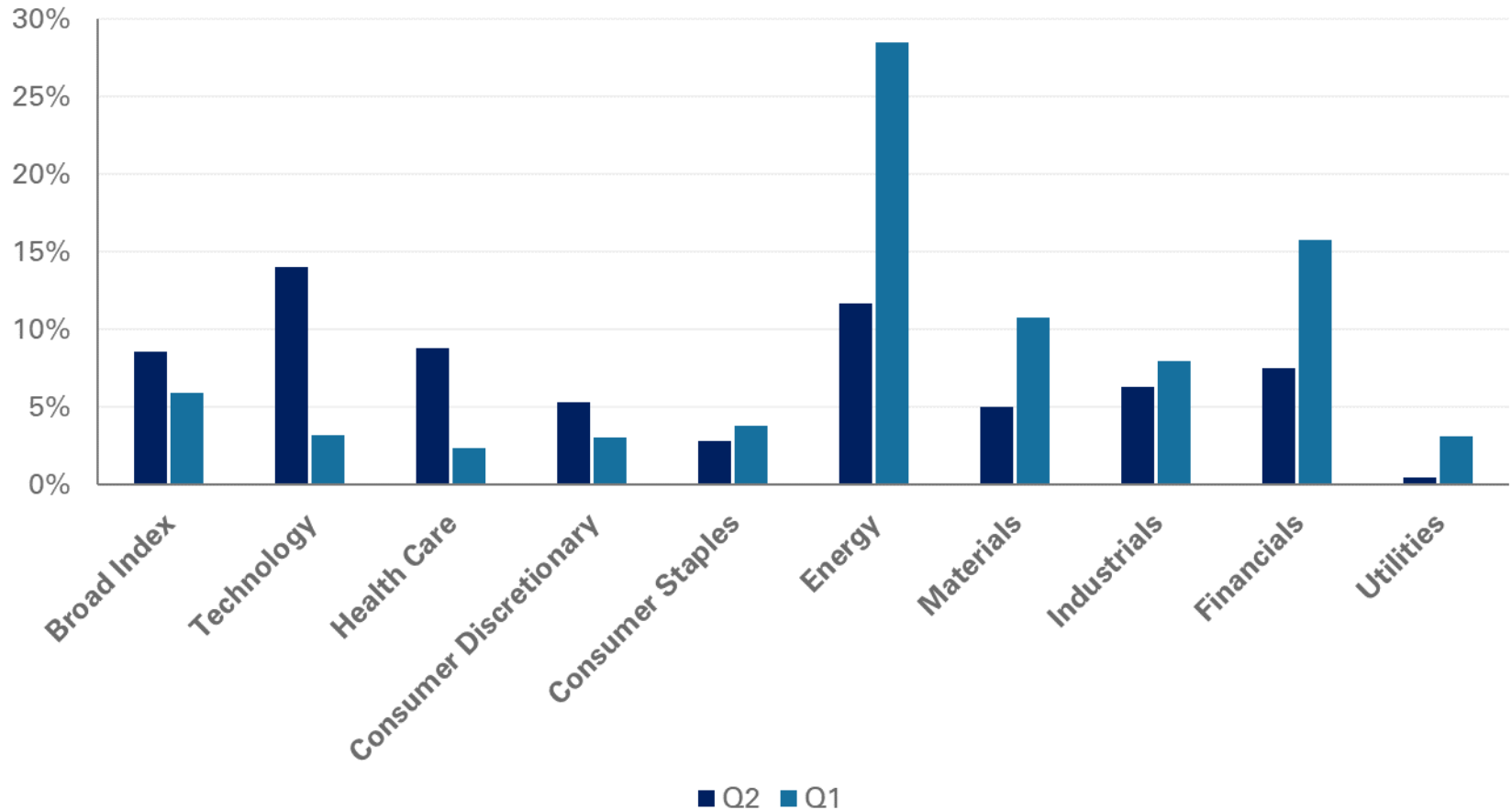
QUARTERLY RETURNS



Source: Russell, MSCI, FactSet

TECHNOLOGY OUTPERFORMED IN Q2

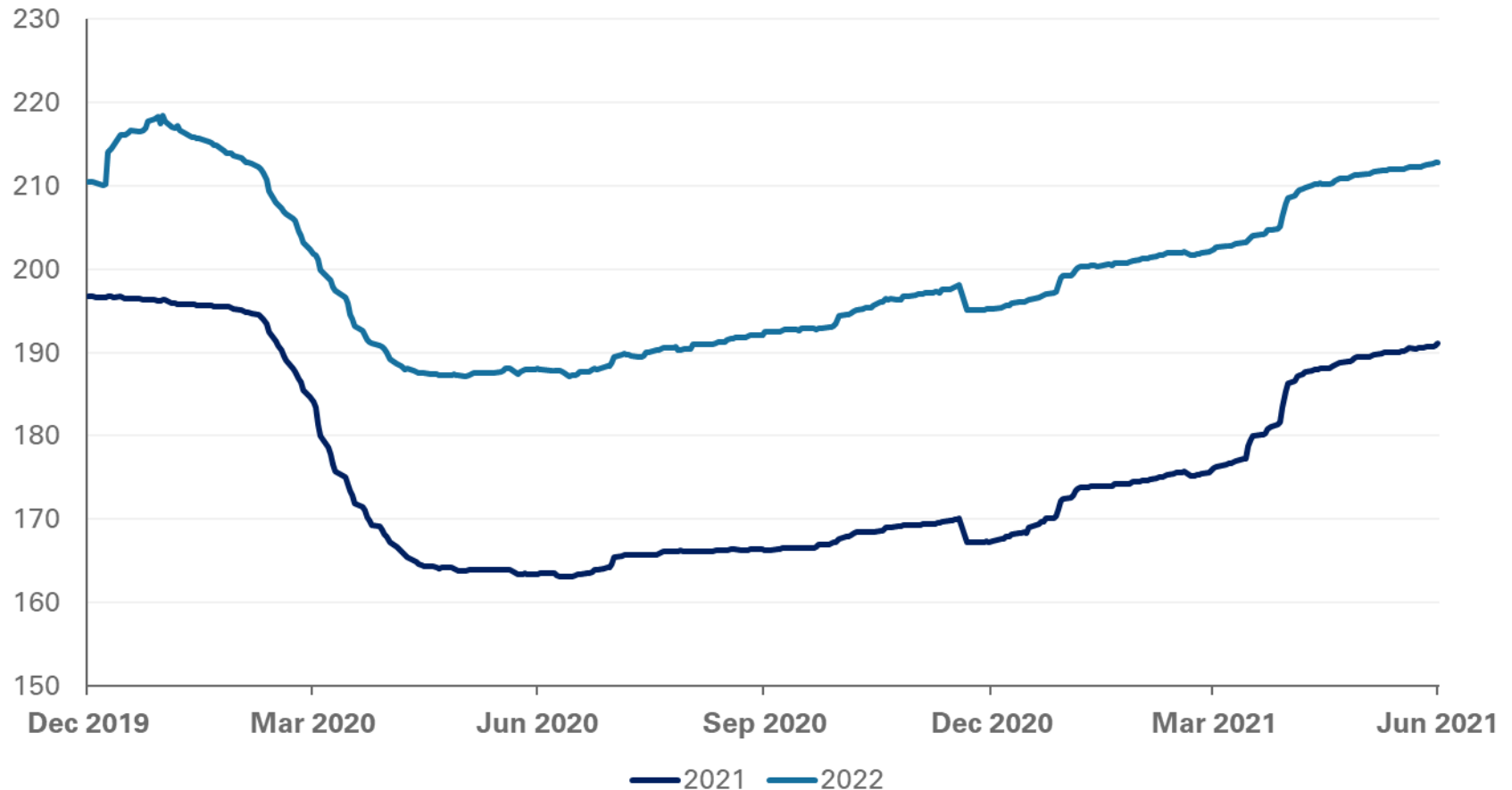
QUARTERLY RETURNS



Source: Russell 1000 Index, FactSet

EPS FORECASTS RECOVERED TO PRE-COVID LEVELS

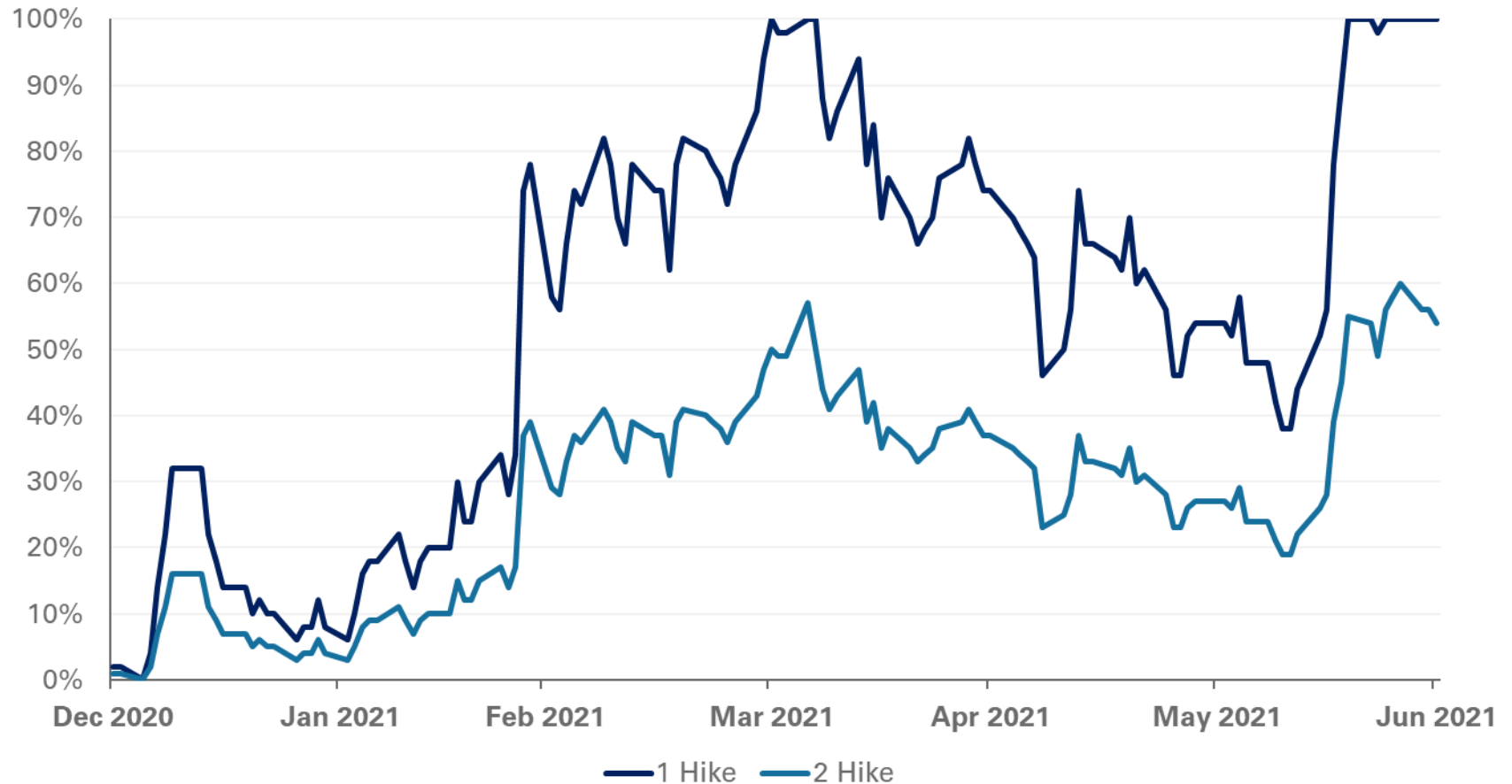
S&P 500 EARNINGS PER SHARE FORECASTS



Source: S&P, FactSet

MARKET PRICED RATE HIKE IN 2022

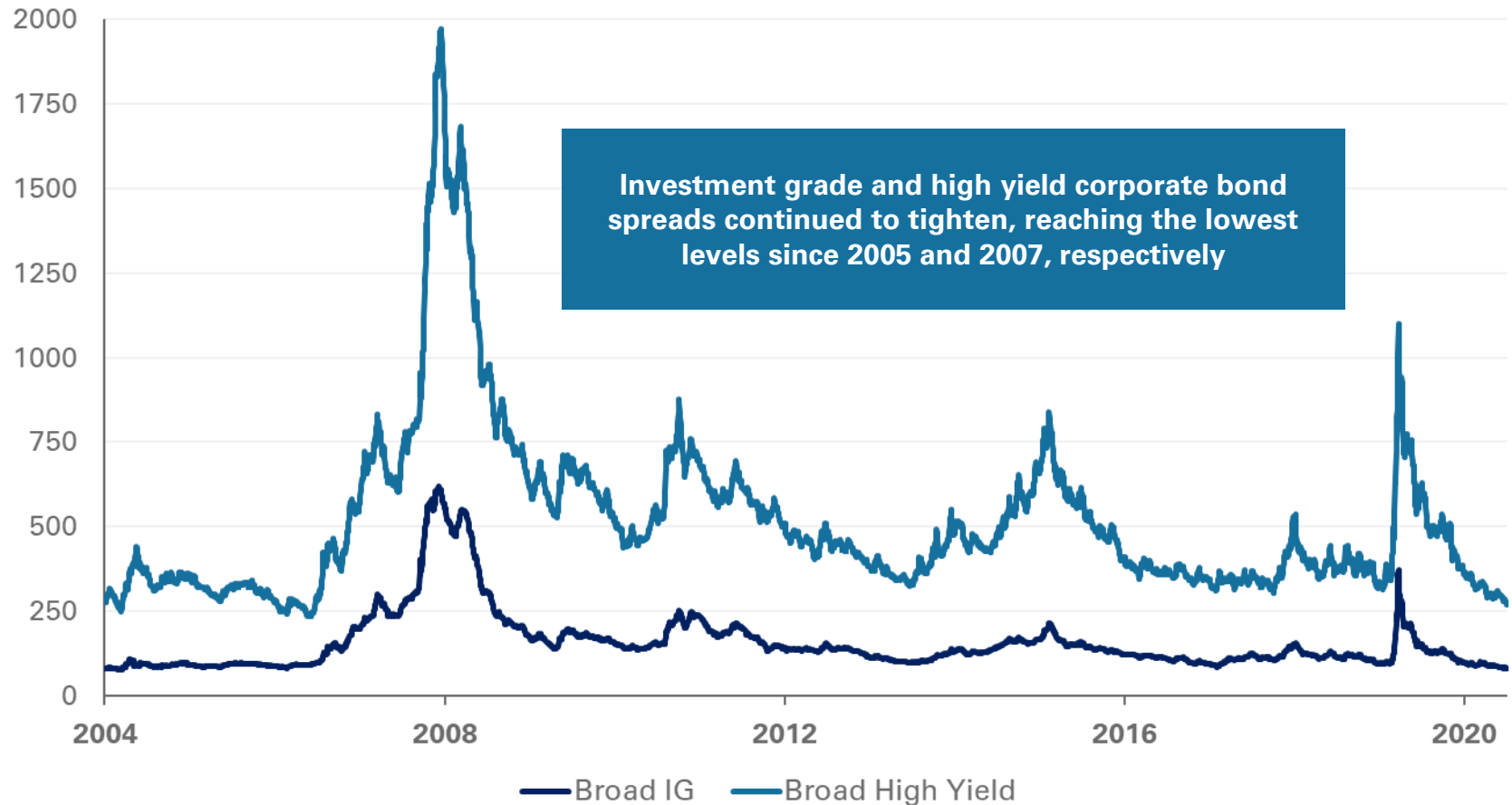
PROBABILITY OF FED FUNDS HIKE BY THE END OF 2022



Source: FactSet

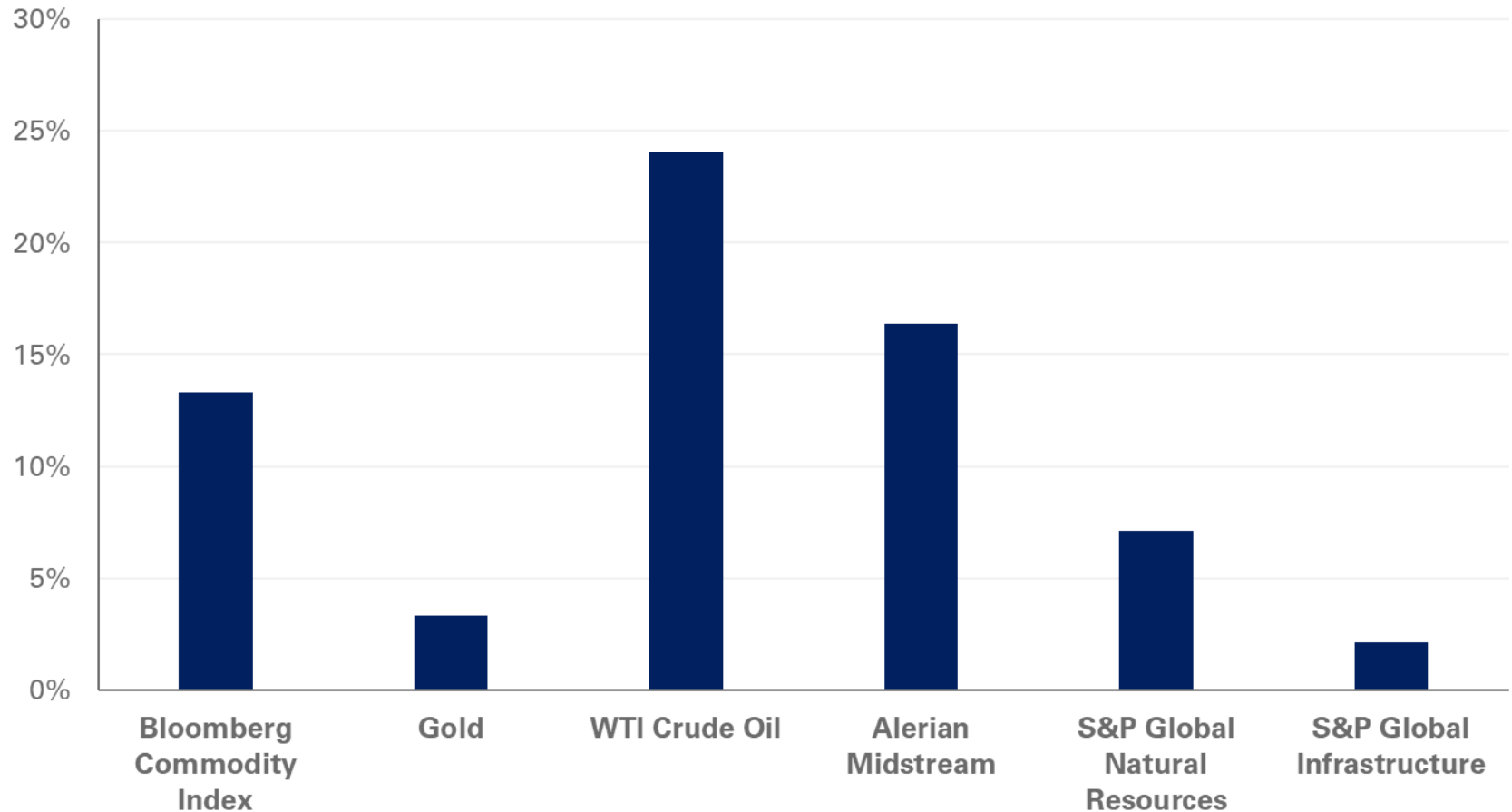
CORPORATE SPREADS NEAR LOWS

OPTION ADJUSTED CREDIT SPREADS



REBOUND IN OIL PRICES BOOSTED REAL ASSETS

QUARTERLY RETURNS



Source: Bloomberg, Alerian, S&P, FactSet



MARKET OUTLOOK



PROPRIETARY & CONFIDENTIAL

STRATEGIC ASSET ALLOCATION OUTLOOK

Permanent Interventions **sustains positive risk asset sentiment** and boosts our return outlook for equity

Consider **higher strategic equity targets** as the long-term forward return differential relative to fixed income remains elevated

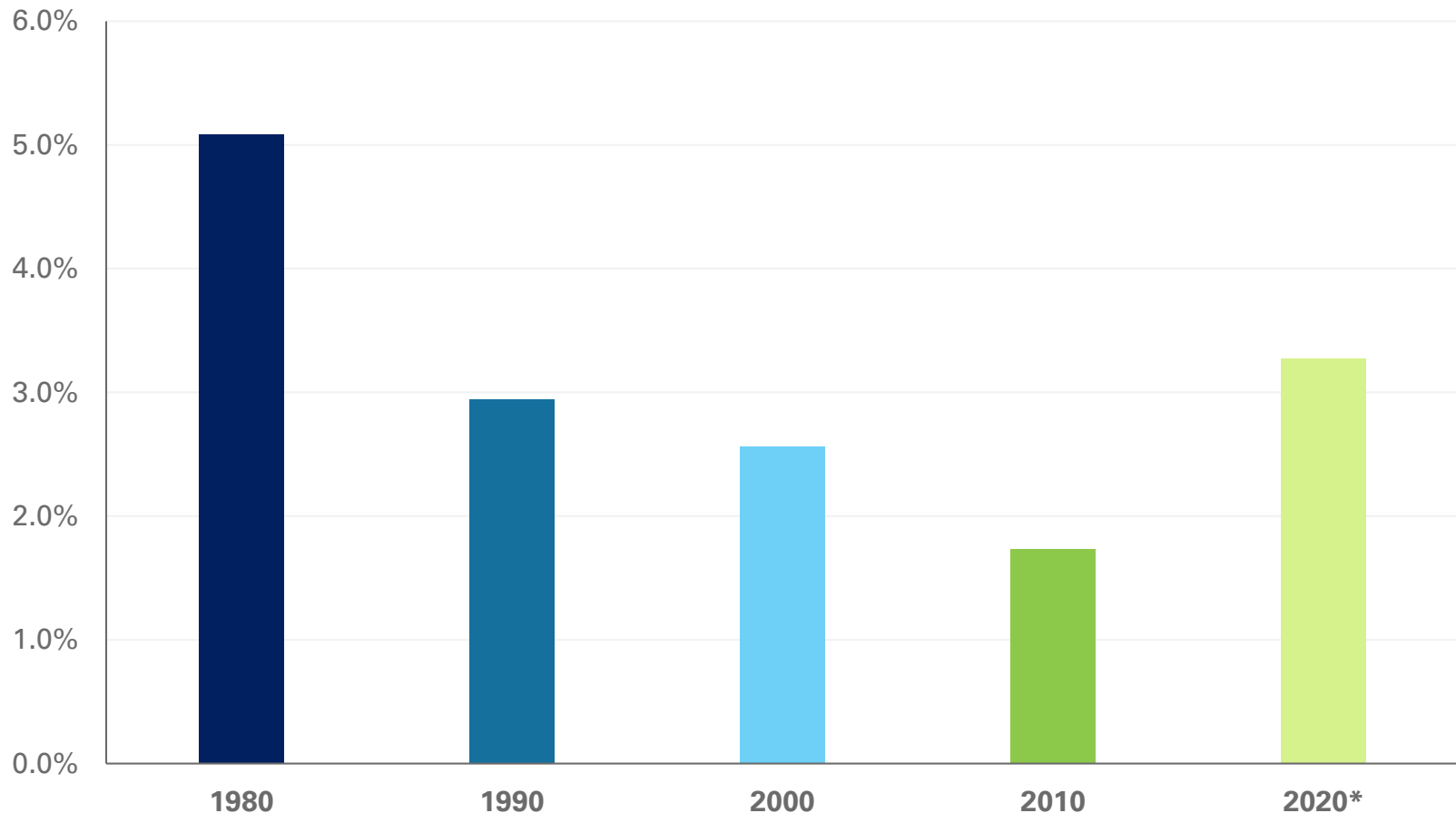
Maintain adequate portfolio liquidity levels as market stress can inject bouts of illiquidity across public assets

NEPC's long-term inflation outlook is unchanged, but the path of inflation over the next several years could be volatile

Maintain a **strategic allocation to Treasuries** to serve as a source of liquidity and to provide downside protection

WE NEED TO REFRAME INFLATION EXPECTATIONS

ANNUAL U.S. INFLATION BY DECADE



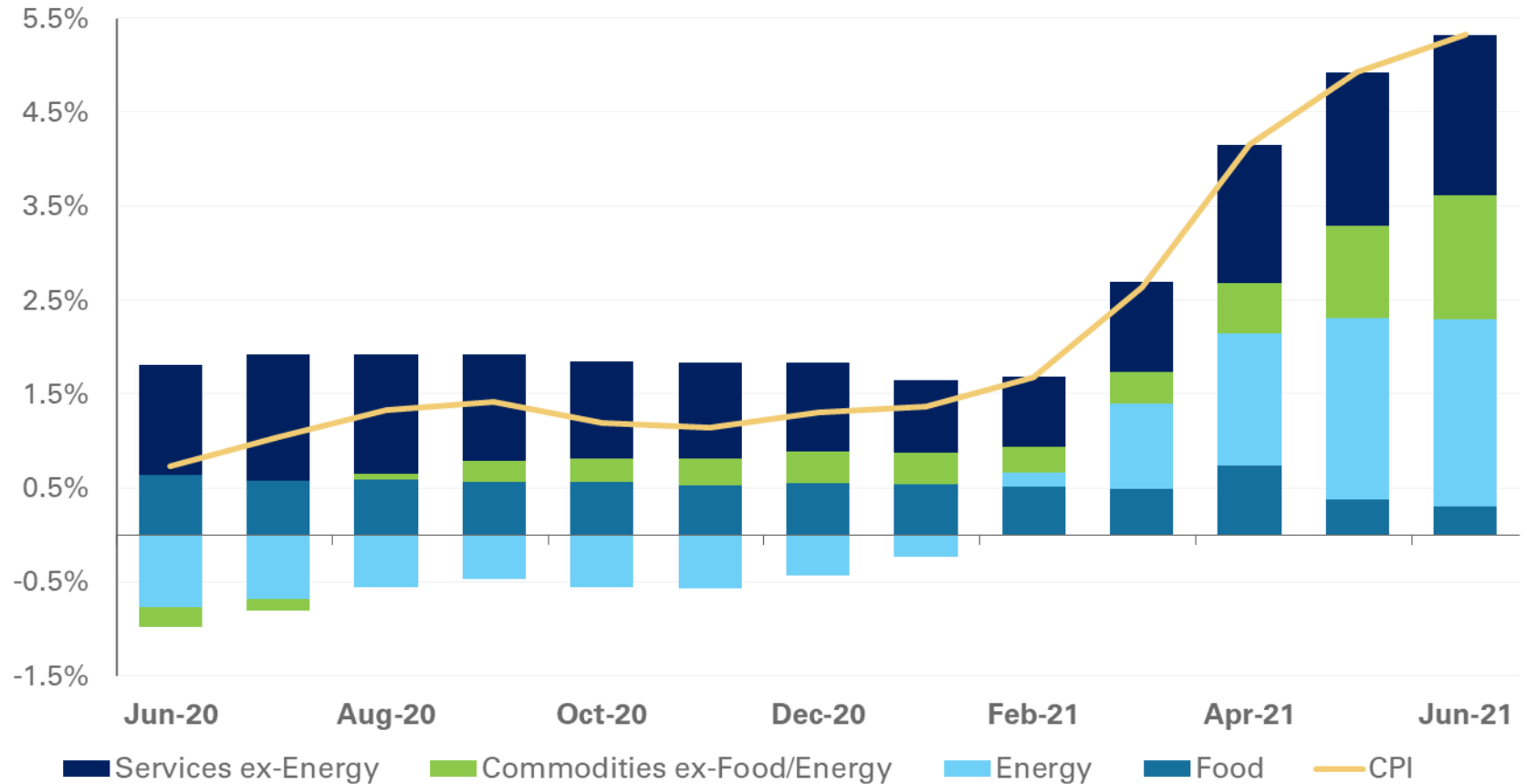
Source: Bureau of Labor Statistics, FactSet

*2020 represents the annualized rate for the decade (01/31/2020-06/30/2021)



REALIZED INFLATION ACCELERATED

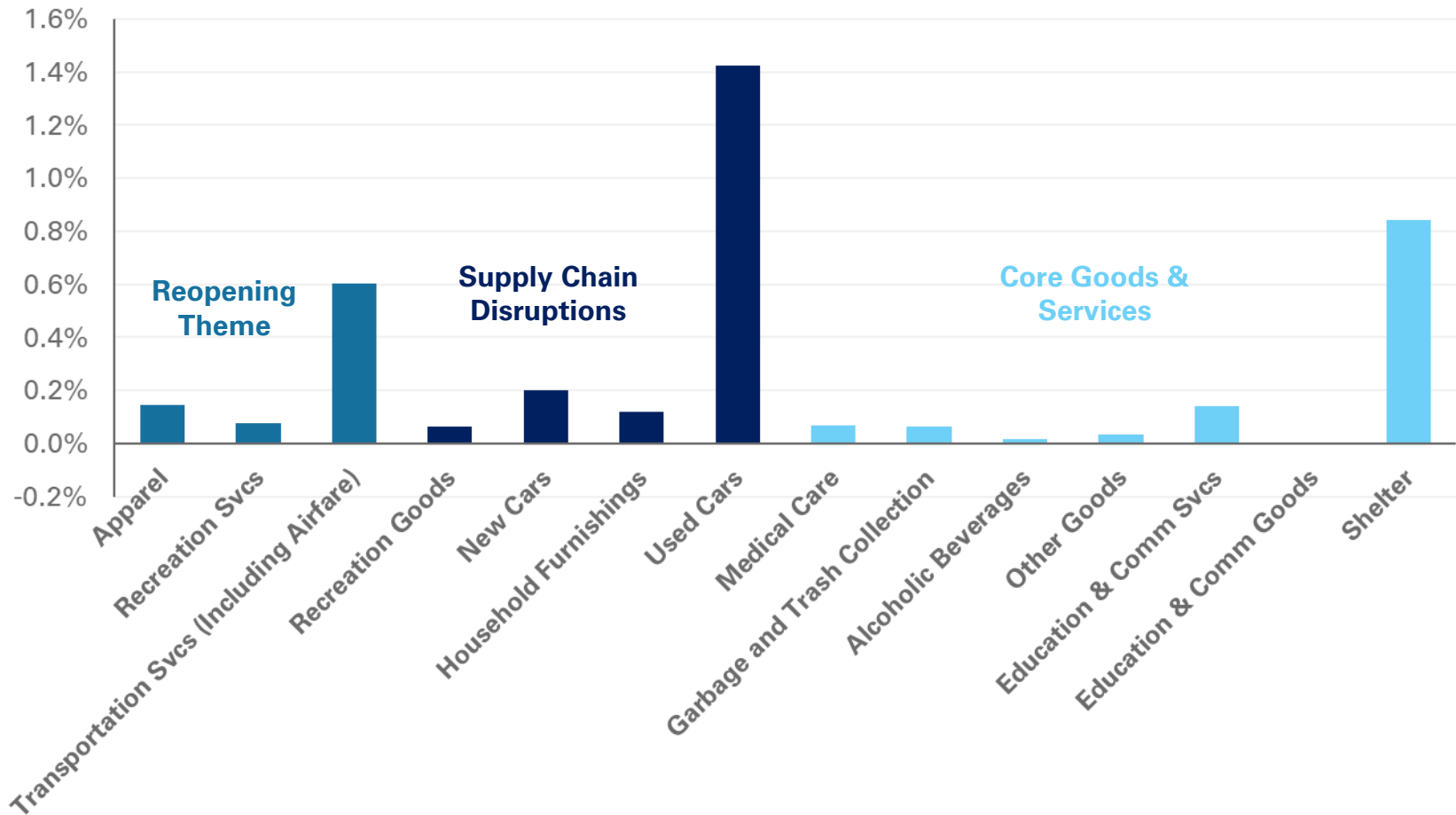
MAJOR COMPONENTS OF YEAR-OVER-YEAR U.S. CPI



Source: Bureau of Labor Statistics, FactSet, NEPC; as of 06/30/2021

UNUSUALLY HIGH INFLATION ACTIVITY

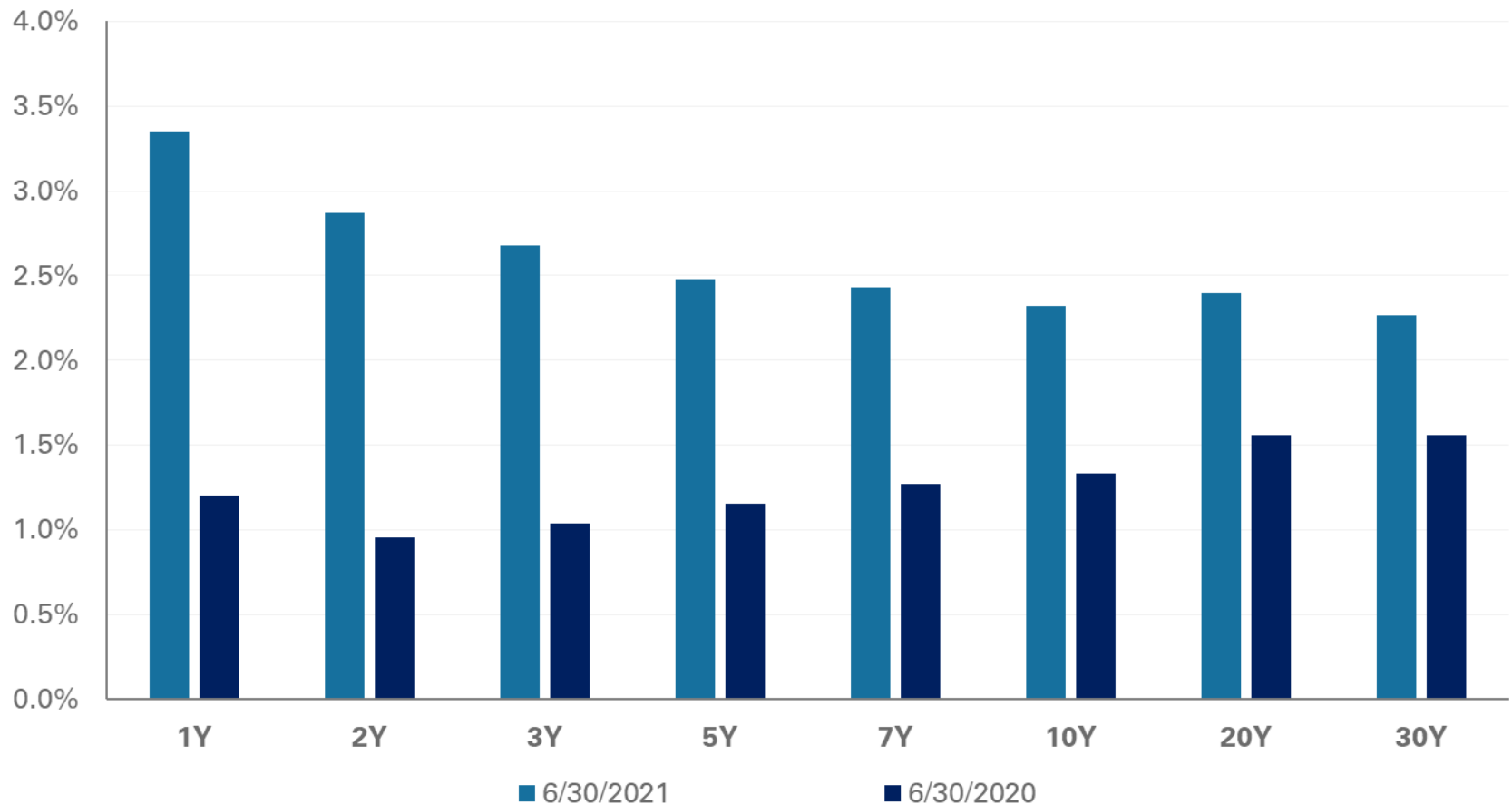
CONTRIBUTION TO YEAR-OVER-YEAR U.S. CPI-U



Source: Bureau of Labor Statistics, FactSet, NEPC; as of 06/30/2021

INFLATION EXPECTATIONS ROSE

U.S. BREAKEVEN INFLATION



Source: FactSet

PORTFOLIO POSITIONING



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PORTFOLIO POSITIONING THOUGHTS

We continue to **favor U.S. and Emerging Markets** over EAFE among public market equity exposure

Look to severely **underweight lower quality credit** exposure as credit spread levels approach historical lows

We **recommend reducing high yield and multi-sector credit** and to shift the exposure equally to U.S. equity and safe-haven fixed income

Reevaluate legacy public real asset strategies with an energy focus as prices have rebounded from prior year distressed levels

CCC-RATED CREDIT SPREADS ARE CONCERNING

OPTION-ADJUSTED CREDIT SPREADS

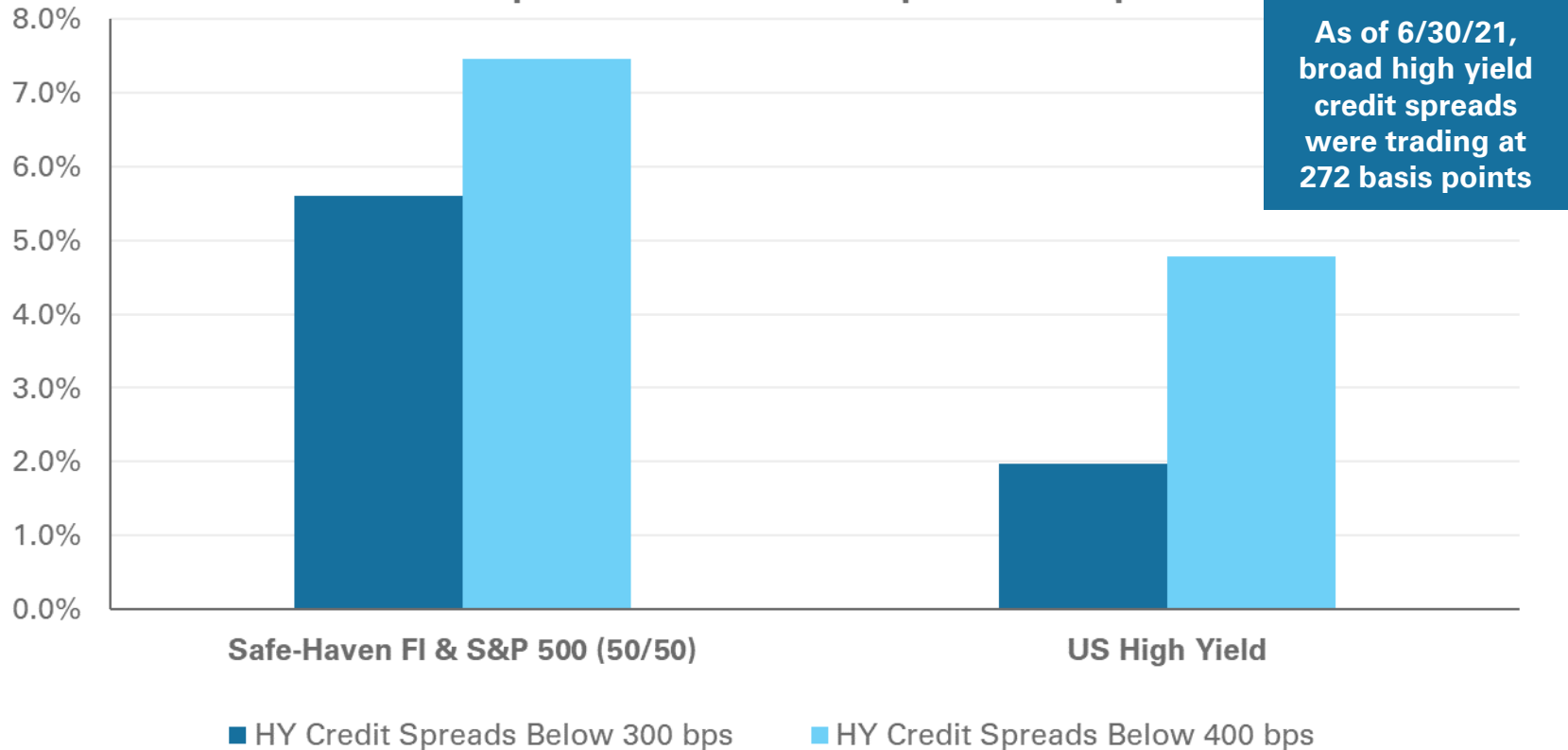


Source: Bloomberg, FactSet

LOOK TO HOLD PUBLIC EQUITY OVER CREDIT

RETURN POTENTIAL FOR HIGH YIELD IS LIMITED

Average 1-Year Return When High Yield
Credit Spreads Are Below 300bps and 400 bps



QUESTIONS



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