



QUARTERLY ASSET CLASS REVIEW

NEPC Research

First Quarter 2023

GLOBAL EQUITIES

U.S. stocks ended the first quarter on solid ground even as turmoil in the banking sector threw markets in disarray. Volatility spiked in March following the collapse of Silicon Valley Bank and a handful of other financial institutions. However, despite the instability, stocks rallied as regulators stepped in to contain the fallout and interest rates fell in response to the bank failures. For the three months ended March 31, the S&P 500 Index gained 7.5% and the NASDAQ was up 17%; during the same period, the Russell 2000 rose nearly 3% with small-cap equities lagging large-cap stocks. International developed equities were in the black too, with the MSCI EAFE up 8.5%. Emerging market stocks gained 4% in the first quarter despite a volatile geopolitical backdrop.

Meanwhile, within U.S. private equity, fundraising activity, at \$66.8 billion, saw a modest uptick in the first quarter from \$64.8 billion a year earlier, according to data from Preqin. Fundraising activity fell steeply in the U.S. venture market, totaling \$11.7 billion in the first quarter compared to \$73.8 billion a year ago.

New deal activity, at \$261 billion, according to data from PitchBook, remained robust for U.S. private equity, although exits were few.

Global Equity Market Returns as of 3/31/2023

Global Equity	Quarter	1 Year	3 Yrs	5 Yrs
MSCI ACWI	7.3%	-7.4%	15.4%	6.9%
US Equity	Quarter	1 Year	3 Yrs	5 Yrs
S&P 500	7.5%	-7.7%	18.6%	11.2%
Russell 1000 Growth	14.4%	-10.9%	18.6%	13.7%
Russell 1000 Value	1.0%	-5.9%	17.9%	7.5%
Russell 2000	2.7%	-11.6%	17.5%	4.7%
Russell 2000 Growth	6.1%	-10.6%	13.4%	4.3%
Russell 2000 Value	-0.7%	-13.0%	21.0%	4.5%
International Equity	Quarter	1 Year	3 Yrs	5 Yrs
MSCI EAFE	8.5%	-1.4%	13.0%	3.5%
MSCI EAFE Hedged USD	7.5%	3.8%	14.6%	6.2%
MSCI EAFE Small Cap	4.9%	-9.8%	12.1%	0.9%
MSCI Europe	10.6%	1.4%	15.0%	4.4%
MSCI Emerging Markets	4.0%	-10.7%	7.8%	-0.9%
MSCI Emerging Markets Small Cap	3.9%	-11.0%	20.7%	1.8%
MSCI China	4.7%	-4.7%	-2.6%	-4.0%
Alternative	Quarter	1 Year	3 Yrs	5 Yrs
HFRI Equity Hedge	3.4%	-2.9%	12.7%	5.2%
HFRI Emerging Markets	2.2%	-4.7%	8.1%	1.1%
HFRI ED: Activist	5.5%	-7.5%	15.8%	4.0%
HFRI ED: Merger Arbitrage	-0.9%	0.6%	10.0%	5.5%

On the venture side, deal activity totaled \$37 billion of value in the first quarter, down 55% from a year ago and a record low since 2019. Exit activity slowed even more, totaling \$56 billion for U.S. private equity in the first quarter, down 34% from the first quarter in 2022; exit value for venture was a mere \$6 billion, an 82% drop from a year ago.

GLOBAL FIXED INCOME

In efforts to contain the fallout from the banking sector, including the failure of Silicon Valley Bank and the hurried rescue of Credit Suisse, the Federal Reserve raised the benchmark rate just 25 basis points in March to a target range of 4.75% to 5%. In addition, the central bank acted swiftly to reassure investors, opening the new Bank Term Funding Program to provide liquidity to financial institutions. As a result, the Fed's balance sheet, which had declined for nearly a year, grew by \$350 billion in March.

Although rates repriced down, spreads in investment-grade and high-yield credit remained steady, and fixed-income asset classes were in the black. Treasuries were up 3%, and investment-grade and high-yield corporate credit gained 3.5% and 3.6%, respectively. Credit hedge funds rose a modest 1.5%, according to the HFRI Credit Index.

Global Fixed-Income Market Returns as of 3/31/2023

Global Fixed Income	Quarter	1 Year	3 Yrs	5 Yrs
BBG Global Aggregate	3.0%	-8.1%	-3.4%	-1.3%
JPM EMBI Global Diversified	1.9%	-6.9%	0.0%	-0.6%
JPM GBI-EM Global Diversified	5.2%	-0.7%	0.9%	-2.4%
Domestic Fixed Income	Quarter	1 Year	3 Yrs	5 Yrs
BBG Aggregate Bond	3.0%	-4.8%	-2.8%	0.9%
BBG Municipal Bond	2.8%	0.3%	0.3%	2.0%
BBG TIPS	3.3%	-6.1%	1.8%	2.9%
BBG US Treasury	3.0%	-4.5%	-4.2%	0.7%
BBG US Long Treasury	6.2%	-16.0%	-11.3%	-0.4%
BBG MBS	2.5%	-4.9%	-3.3%	0.2%
BBG US Credit	3.5%	-5.3%	-0.7%	1.5%
BBG US Long Credit	5.4%	-11.3%	-2.6%	1.1%
BBG High Yield	3.6%	-3.3%	5.9%	3.2%
BBG Muni High Yield	2.7%	-4.5%	2.7%	3.1%
Morningstar LSTA Lev. Loan	2.9%	2.4%	6.5%	3.4%
BBG T-Bills	1.1%	2.5%	0.8%	1.4%
Alternative	Quarter	1 Year	3 Yrs	5 Yrs
HFRI Credit Index	1.5%	-1.4%	8.1%	3.6%
HFRI ED: Credit Arbitrage	-0.3%	-1.8%	8.9%	4.0%
HFRI ED: Distressed/Restructuring	1.2%	-4.3%	12.4%	4.8%
HFRI Relative Value	1.4%	0.0%	7.7%	3.6%

REAL ASSETS

The first quarter was a mixed bag for real assets. The Bloomberg Commodity Index lost 5.4%. Crude oil was down 5.6% for the three months ended March 31. During this period, gold was a bright spot with gains of 8%.

For global natural resource equities, 2023 was off to a muted start with returns of 0.6% for the first quarter. Meanwhile, the S&P Global Infrastructure Index got off to a better start, returning 3.9% for

the first quarter. NEPC is constructive on infrastructure as a potential hedge against inflation and we continue to favor private markets when it comes to implementing infrastructure in a portfolio.

Elsewhere, in real estate, the FTSE NAREIT Equity REITs Index posted a modest 1.6% return for the quarter. The office market—everyone’s favorite punching bag since the pandemic—was at the receiving end again, with the Office sub-index down over 15%. The best performing subsector within REITs has been the

growing self-storage asset class, which was up over 13% in the first quarter; industrial REITs maintained their multi-year surge, posting a return of nearly 10%.

Private real estate returns declined for the second straight quarter, with the NCREIF ODCE posting a 3.16% preliminary gross loss for the quarter as the effects of rising interest rates continue to pressure asset values. Fundamentals remain healthy for most sectors, though uncertainties around the future demand for traditional office space are weighing on markets.

Elsewhere, private infrastructure strategies—particularly communications infrastructure, renewable energy, and energy transition strategies—are still seeing increased interest from investors.

Real Asset Returns as of 3/31/2023

	Quarter	1 Year	3 Yrs	5 Yrs
Bloomberg Commodity	-5.4%	-12.5%	20.8%	5.4%
GSCI Commodity	-4.9%	-10.0%	30.5%	4.9%
Gold Spot	8.0%	1.7%	7.7%	8.4%
WTI Crude Oil Spot	-5.6%	-24.7%	54.5%	4.3%
BBG Commodity - Agriculture	0.0%	-3.6%	23.7%	8.4%
BBG Commodity - Energy	-18.7%	-25.1%	25.4%	-1.5%
BBG Commodity - Industrial Metals	-2.1%	-22.1%	21.1%	5.9%
BBG Commodity - Precious Metals	6.3%	-0.4%	8.3%	7.1%
S&P Global Natural Resource Equities	0.6%	-5.0%	27.7%	7.8%
NAREIT Composite Index	1.6%	-19.6%	10.4%	5.7%
NAREIT Global REIT Index	1.7%	-19.6%	9.7%	2.8%
Alerian Midstream Index	0.8%	-1.2%	34.8%	9.7%

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.

The information in this report has been obtained from sources NEPC believes to be reliable. While NEPC has exercised reasonable professional care in preparing this report, we cannot guarantee the accuracy of all source information contained within.

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.

