



NEPC MARKET OUTLOOK

THE U.S. ECONOMY'S LANDING PATH:
WHERE IS THE RUNWAY?

APRIL 13, 2023

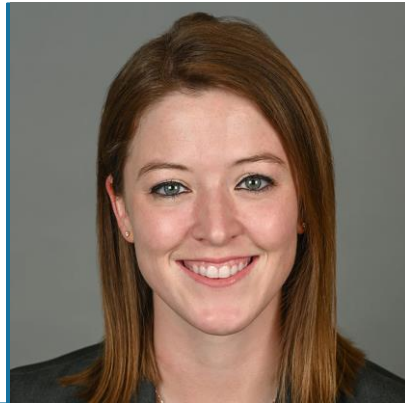


SPEAKERS



Phillip Nelson, CFA

Partner, Head of Asset
Allocation

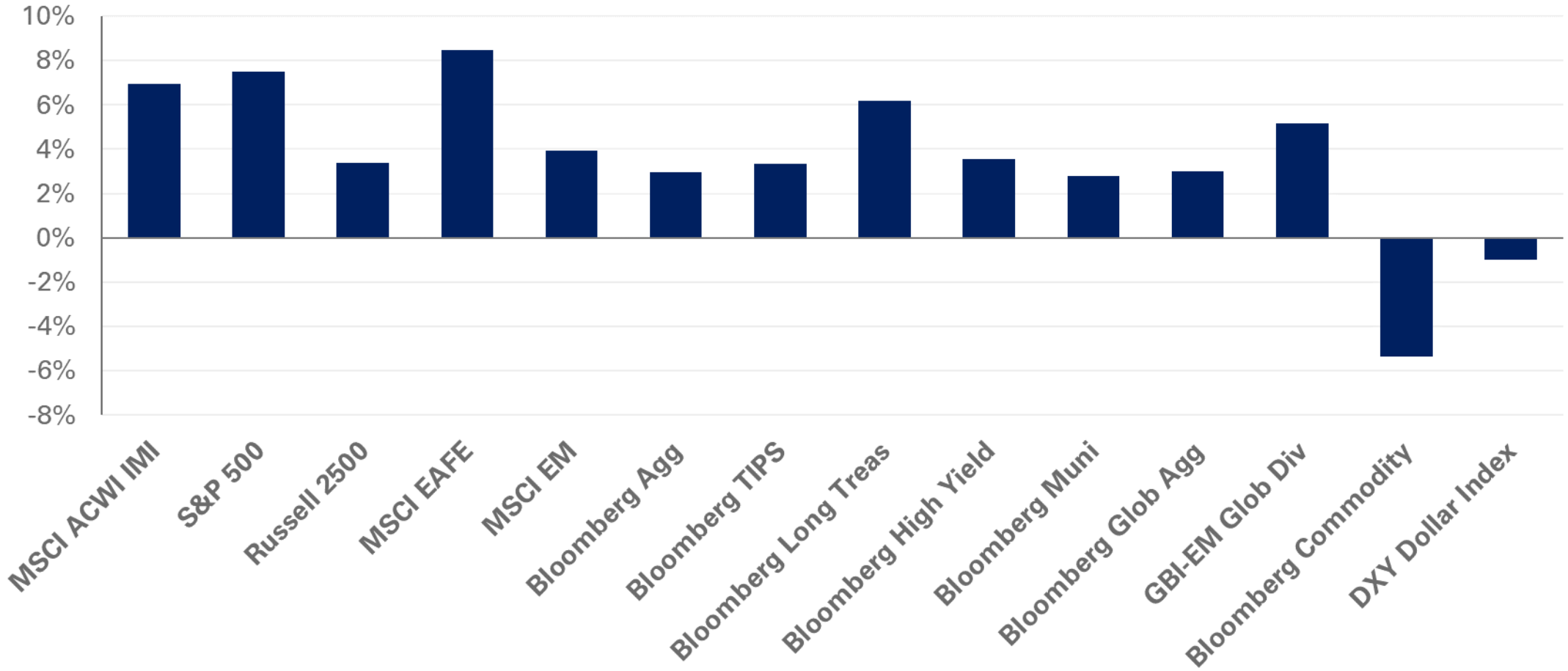


Jennifer Appel, CFA

Senior Investment
Director, Asset Allocation

EQUITIES HELD STRONG FOR THE QUARTER

2023 FIRST QUARTER TOTAL RETURNS

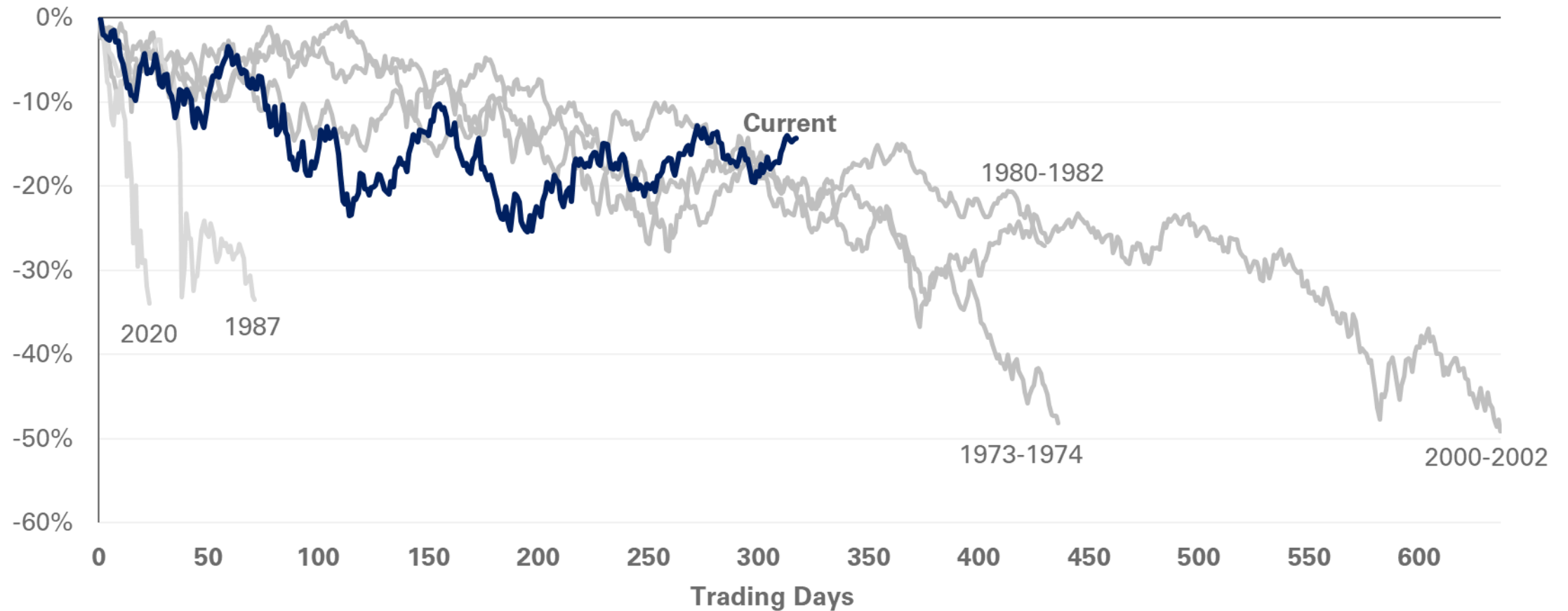


Source: MSCI, S&P, Russell, MSCI, Bloomberg, JPM, FactSet



BEAR MARKET IS BREAKING FROM PAST TREND

HISTORICAL S&P 500 BEAR MARKET PATHS RELATIVE TO TODAY

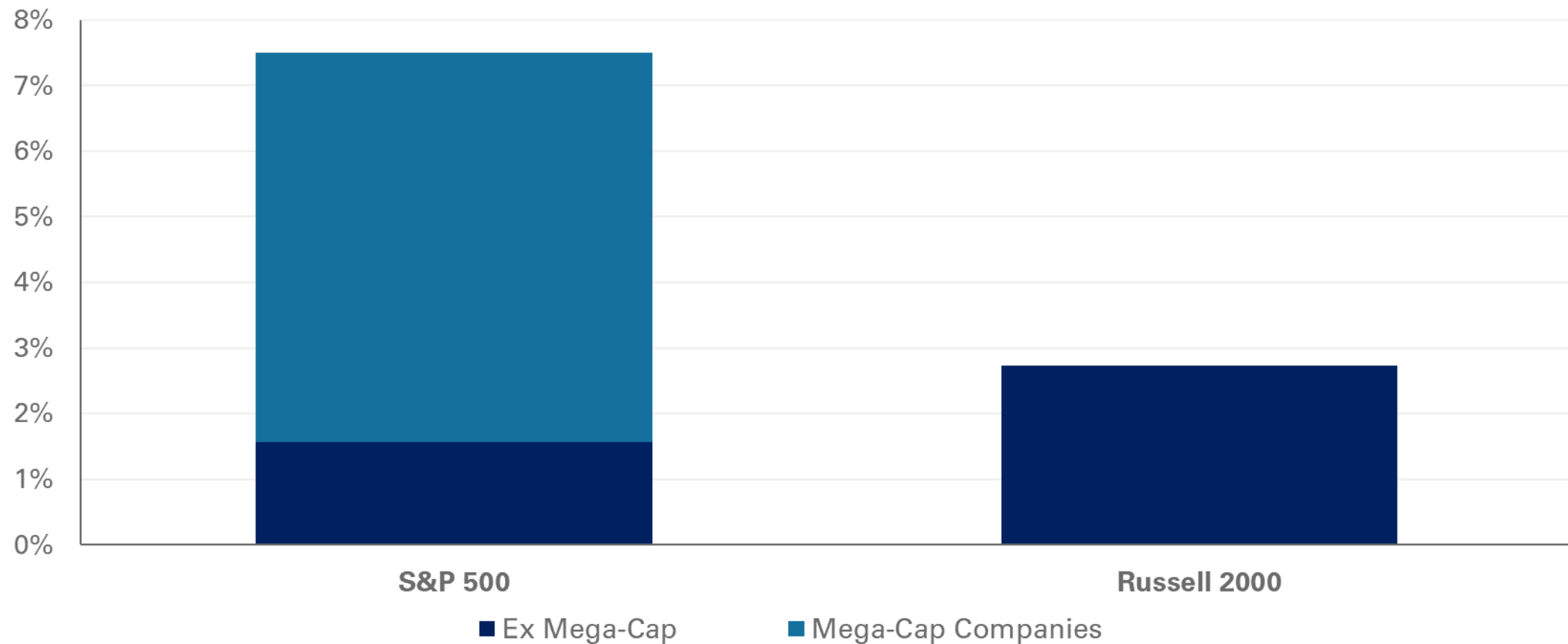


Sources: S&P, FactSet, NEPC



MEGA-CAPS SUPPORTED EQUITY MARKETS

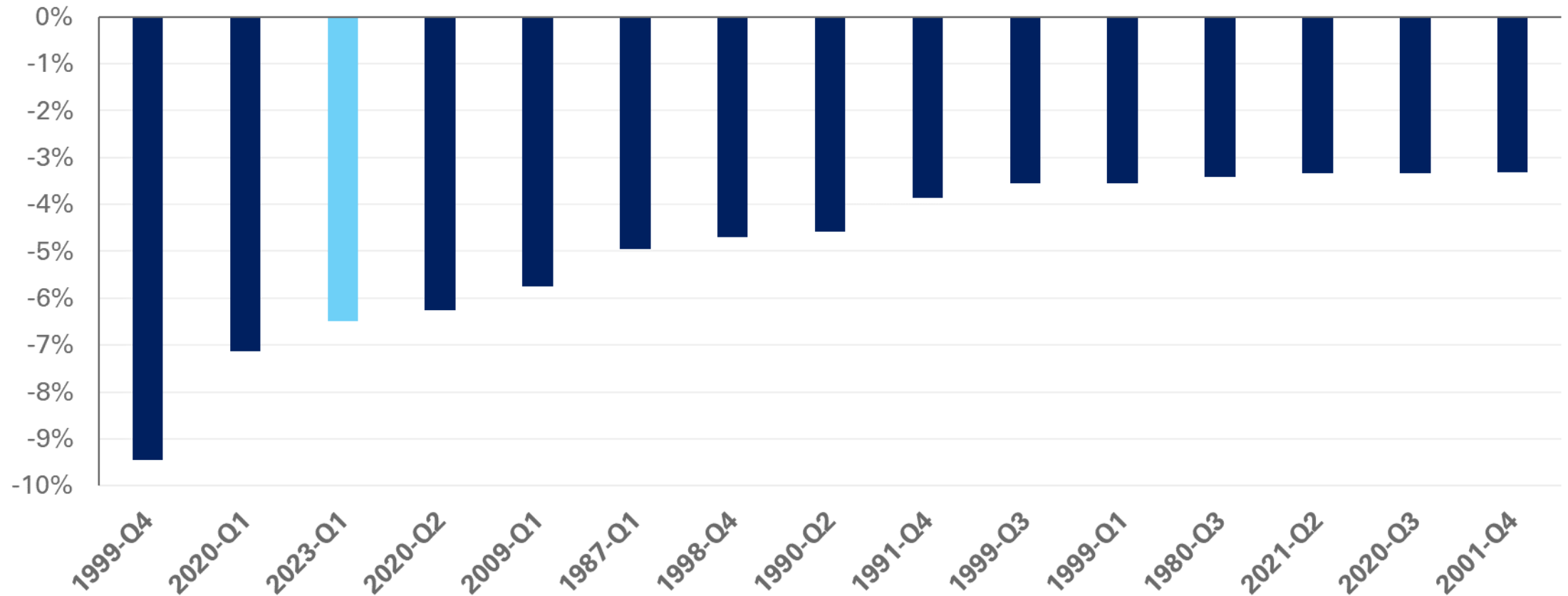
CONTRIBUTION TO QUARTERLY RETURN



Mega-Cap companies represent Alphabet, Amazon, Apple, Microsoft, Meta Platforms, Tesla, and Nvidia
Sources: S&P, Russell, FactSet

VALUE PRESSURED BY MEGA-CAPS AND RATES

RUSSELL 1000 VALUE VS S&P 500: BOTTOM 15 QUARTERS

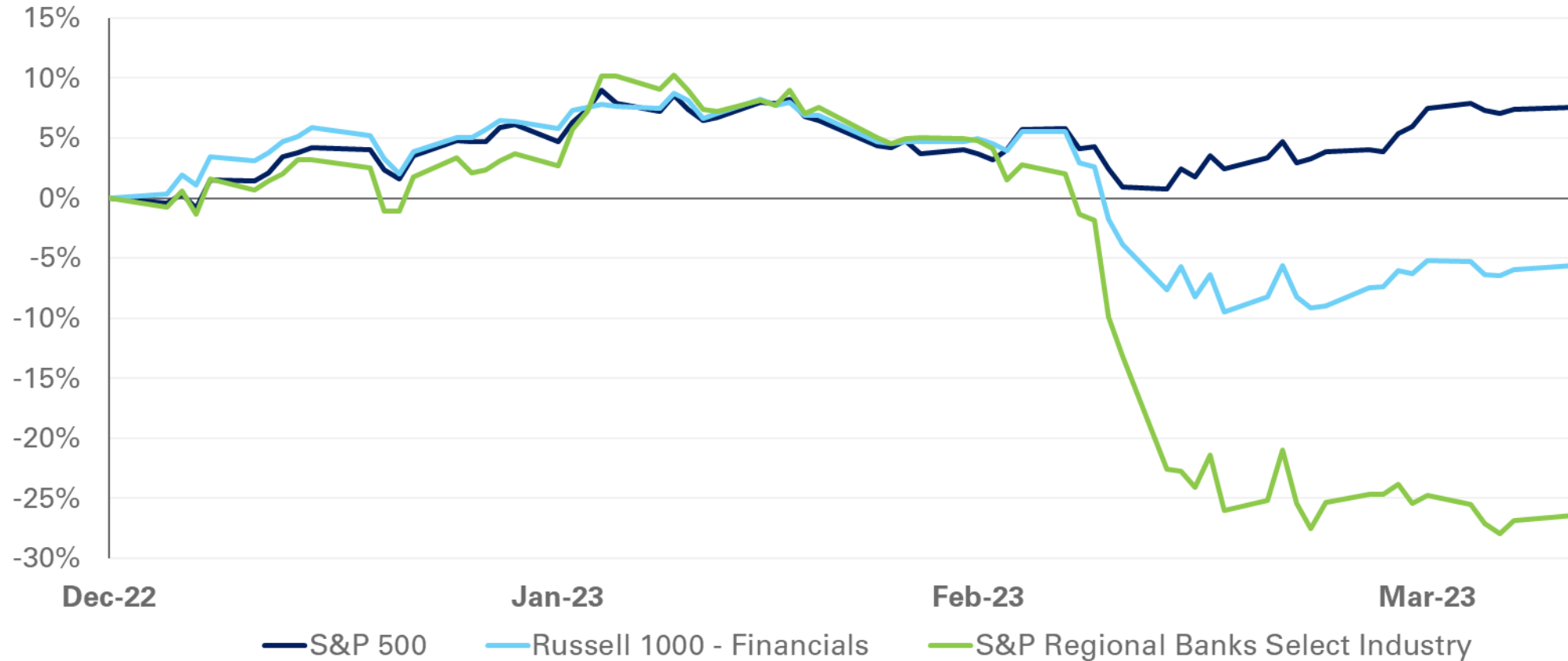


Sources: S&P, Russell, FactSet



THE FINANCIAL SECTOR UNDERPERFORMED

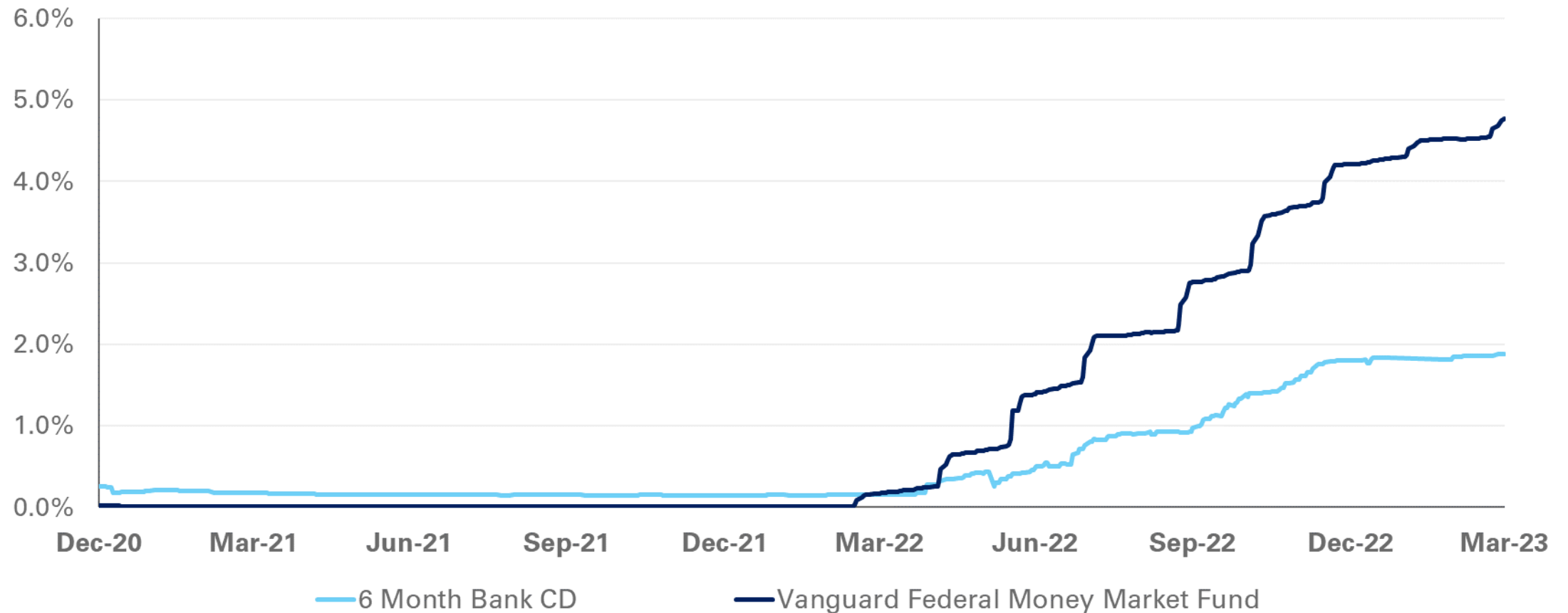
2023 CUMULATIVE TOTAL RETURNS



Sources: S&P, Russell, FactSet

BANK DEPOSIT RATES ARE BELOW MARKET

6-MONTH BANK CD RATE VERSUS MONEY MARKET FUND YIELD

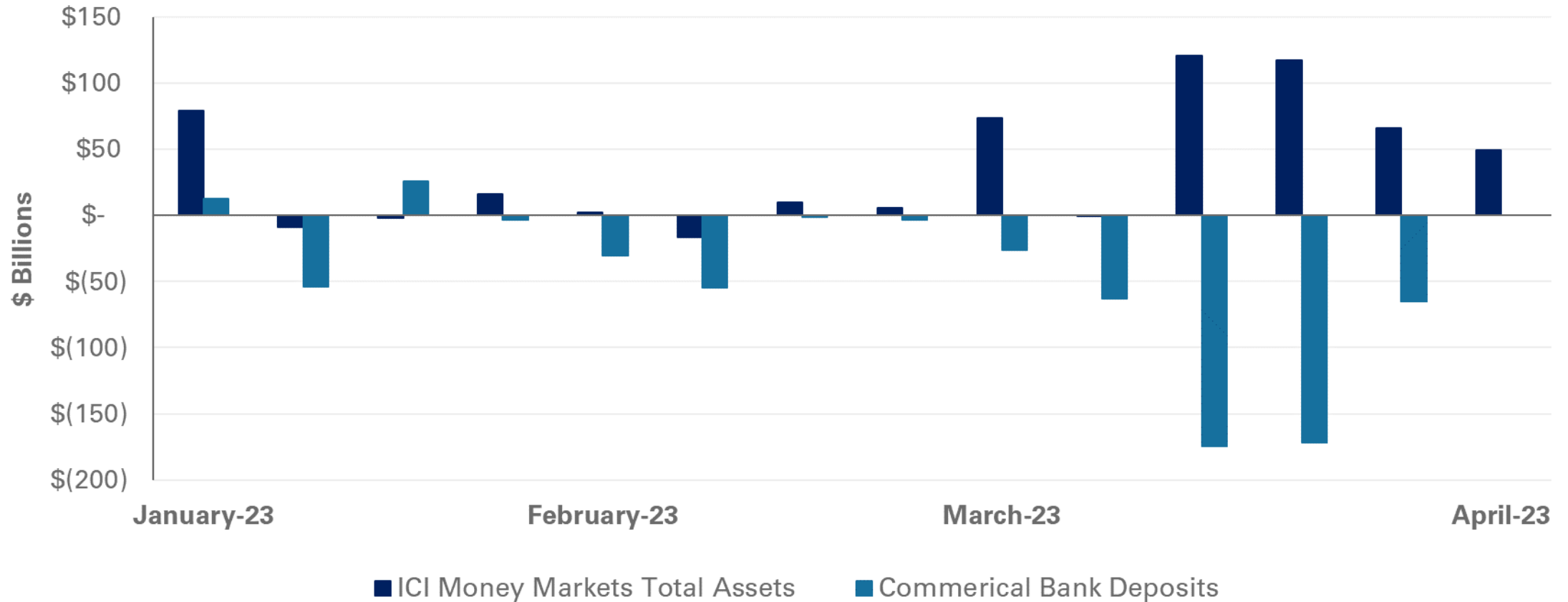


Source: Bankrate, VMFXX, FactSet



MONEY MARKET FUNDS SAW LARGE INFLOWS

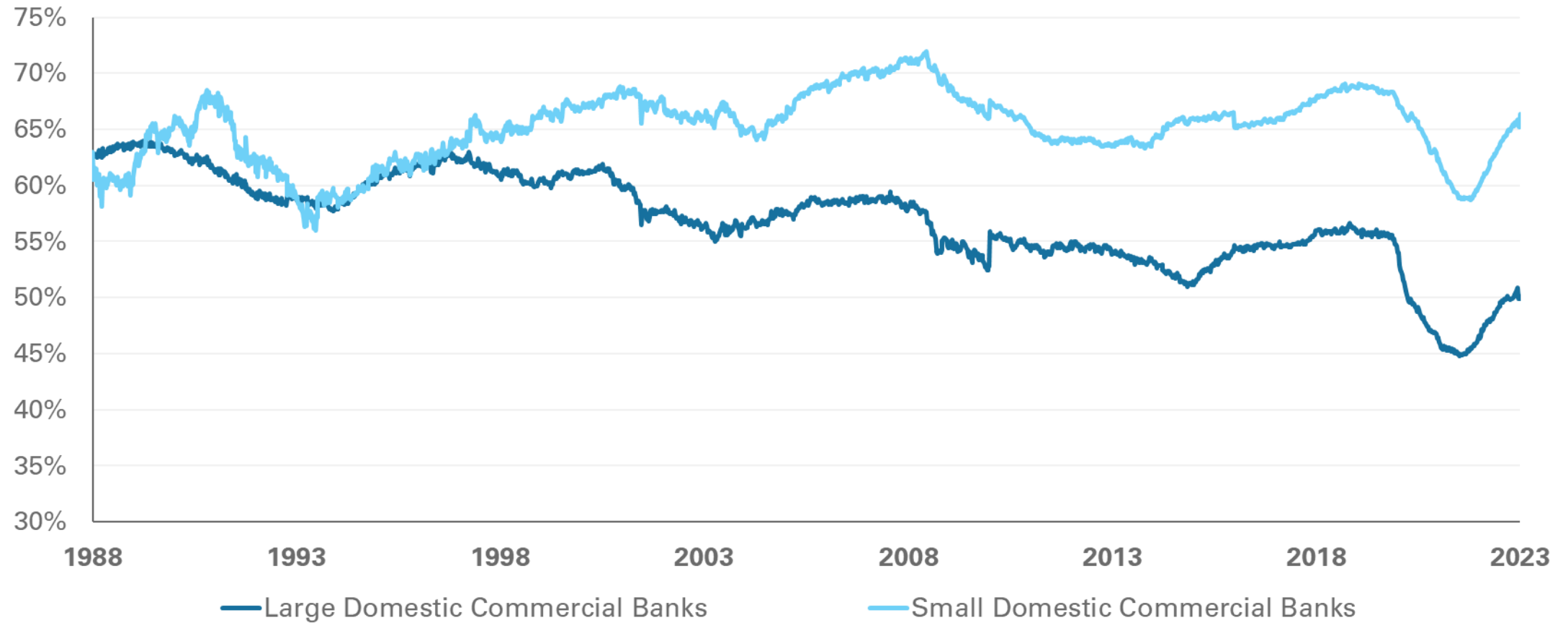
WEEKLY CHANGE IN MONEY MARKET ASSETS AND BANK DEPOSITS



Source: ICI, Federal Reserve, FactSet

CREDIT LENDING IS LINKED TO DEPOSIT LEVELS

LOANS & LEASES IN BANK CREDIT AS % OF TOTAL BANK ASSETS

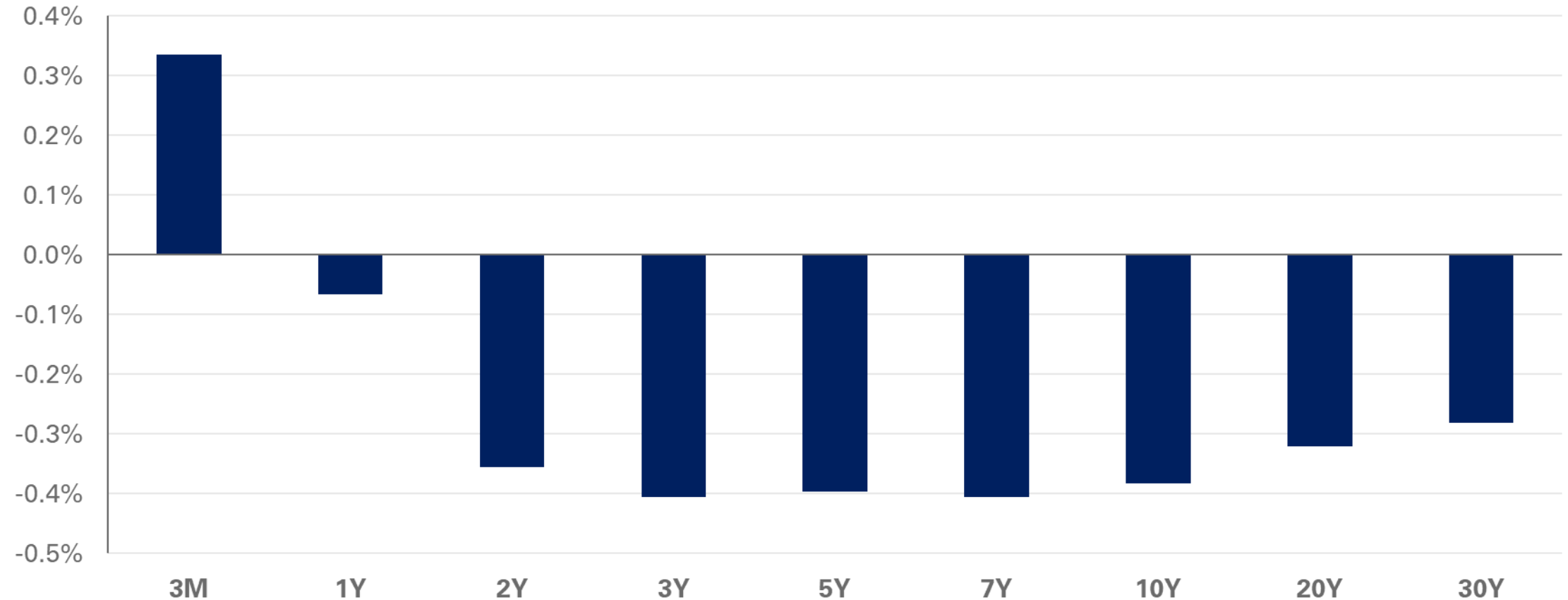


Source: Federal Reserve, FactSet



THE U.S. TREASURY YIELD CURVE SHIFTED LOWER

QUARTERLY CHANGE IN U.S. TREASURY YIELDS

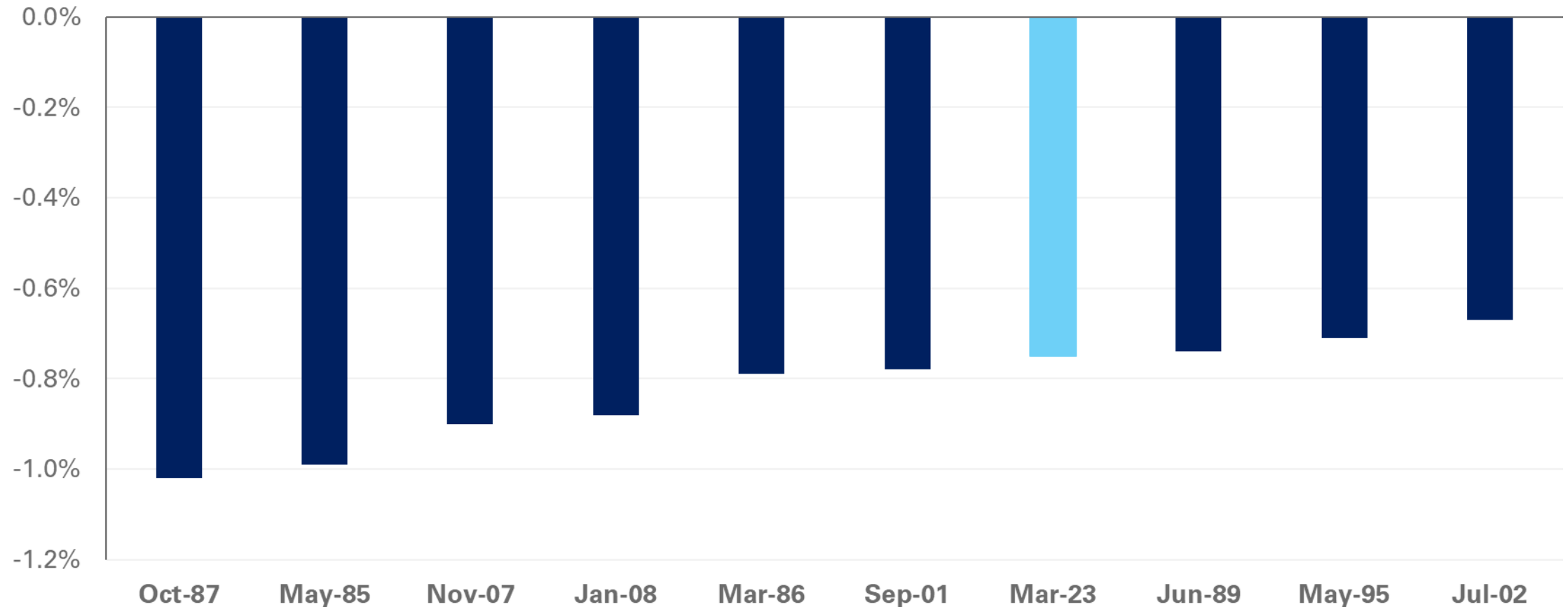


Source: FactSet



THE 2-YEAR TREASURY YIELD FELL DRAMATICALLY

TOP MONTHLY DECLINES: 2-YEAR TREASURY YIELD



Data calculated since 12/31/1984; There are 11 instances since 1979 where the 2-year treasury experienced monthly declines larger than March 2023.
Source: FactSet



THE EQUITY-BOND MARKET DIVIDE

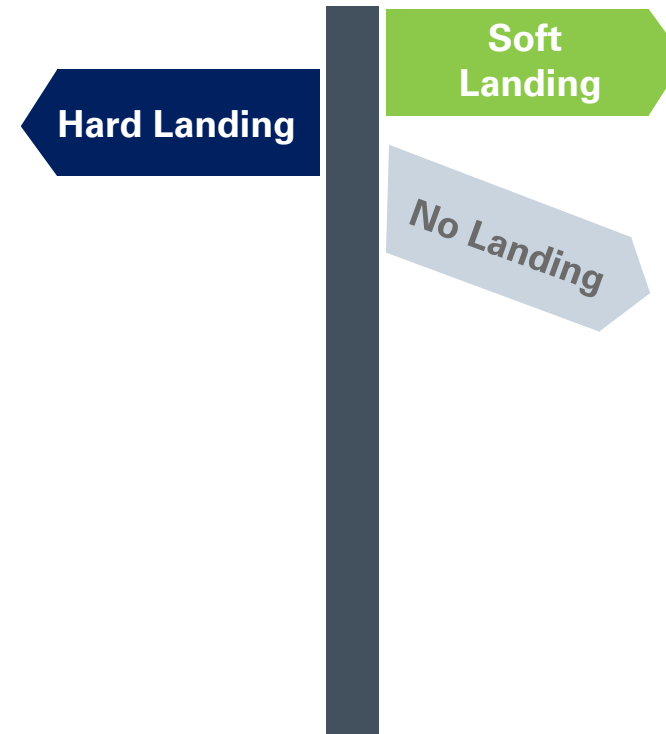


PROPRIETARY & CONFIDENTIAL

A DATA CONUNDRUM

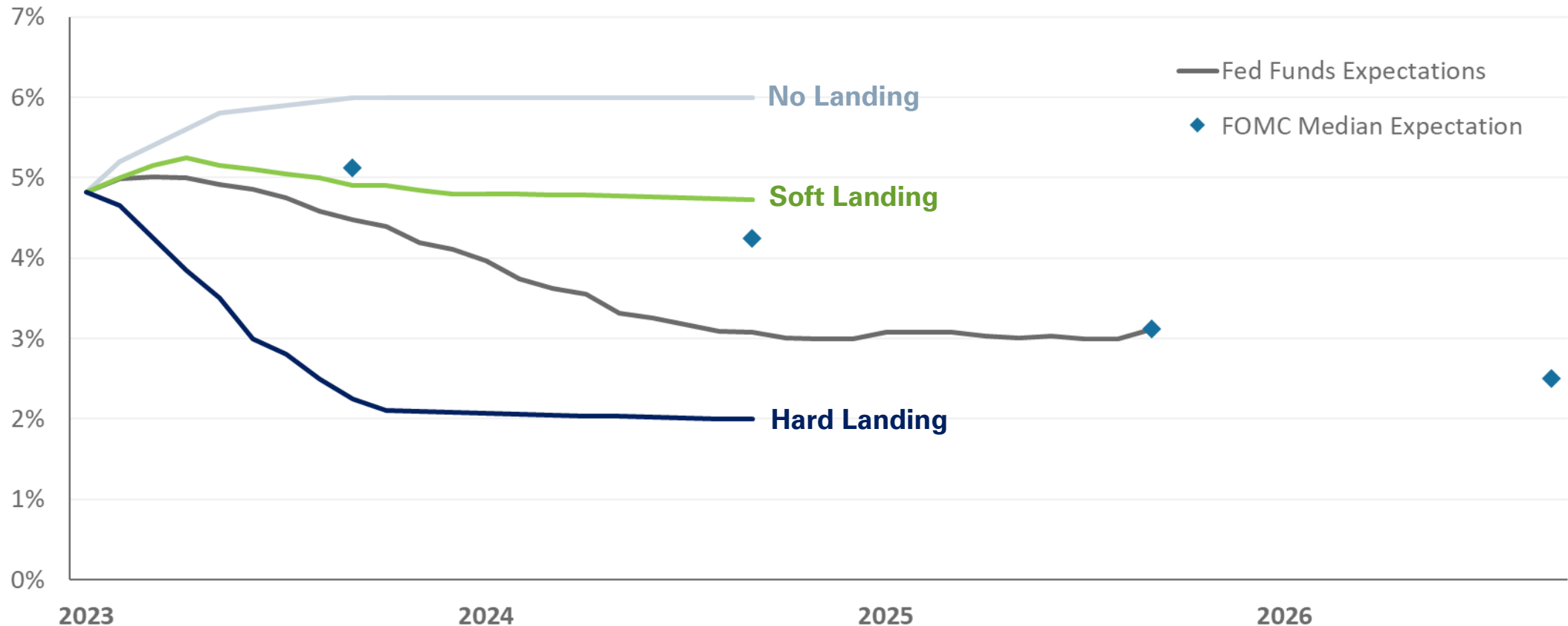
THE MARKET IS DIGESTING THREE DISTINCT ECONOMIC OUTCOMES

Investor Sentiment	No Landing
Labor Market	No Landing
Economic Growth	Soft Landing
Inflation	No Landing
Consumer Spending	Soft Landing
Fed Funds Expectations	Hard Landing
FOMC Expectations	Soft Landing
Interest Rates	Soft Landing
Manufacturing Sector	Hard Landing
Services Sector	No Landing
Commercial Real Estate	Hard Landing



MARKET PRICING REFLECTS RECESSION CONCERNS

THE FED DOT PLOT VERSUS FED FUNDS FUTURES

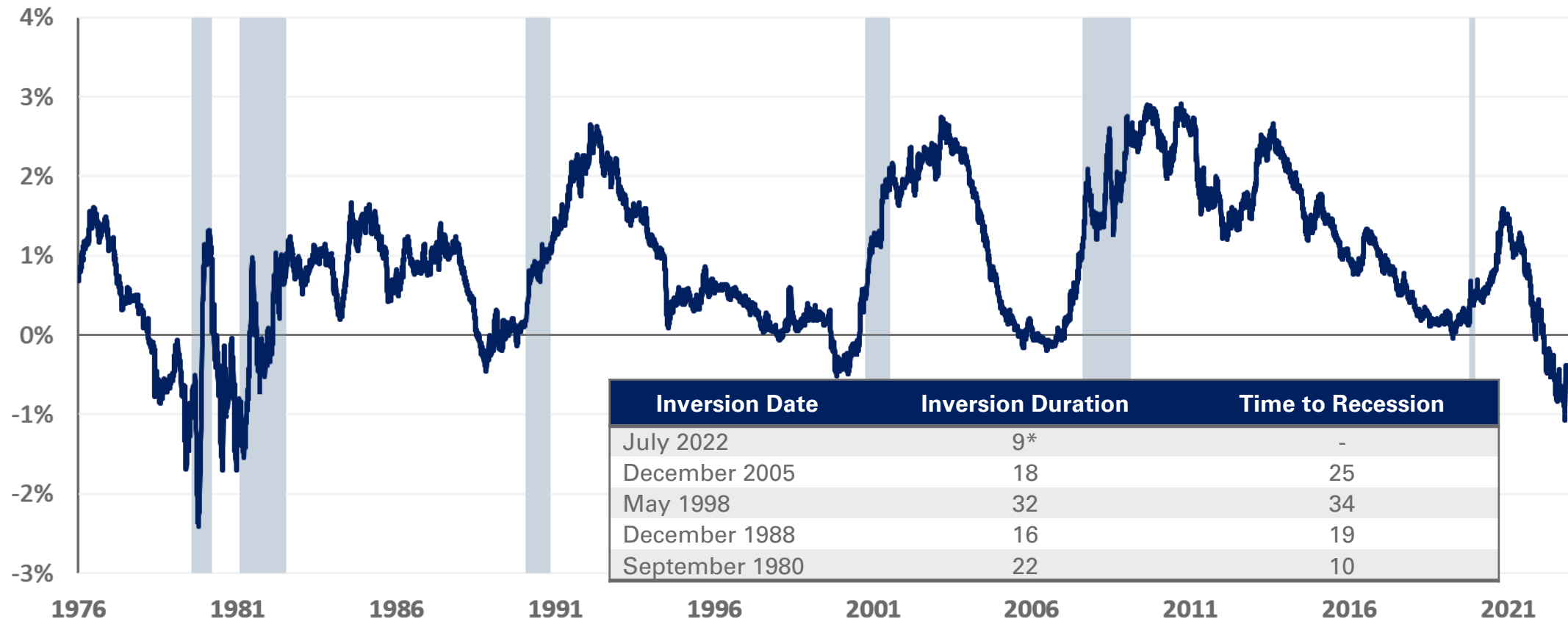


Notes: "No landing", "Soft landing", and "Hard landing" paths are illustrative
Sources: Federal Reserve, FactSet



THE YIELD CURVE STILL SIGNALS RECESSION

10-2 INVERSION REFLECTS DEPRESSED BOND MARKET OUTLOOK

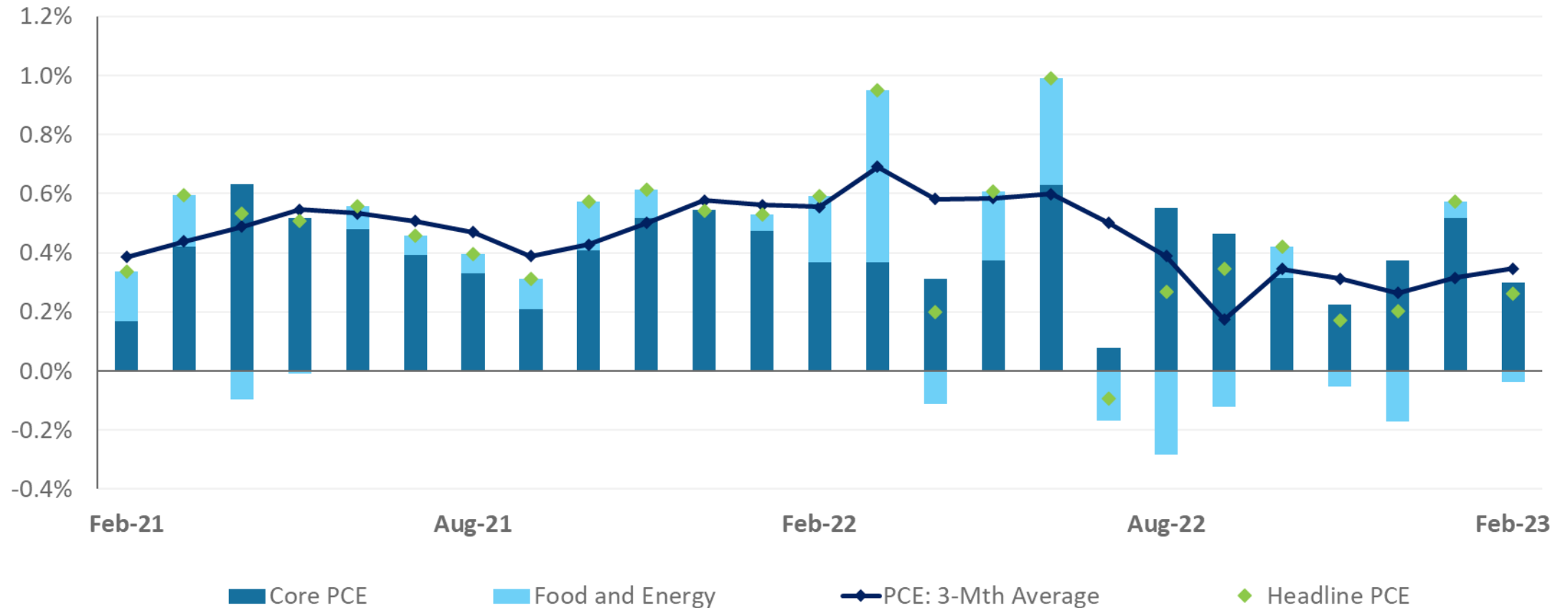


Notes: Shaded time periods represent U.S. recessions defined by the ECRI; *2022 inversion duration reflects number of months through April 2023
Sources: ECRI, FactSet



INFLATION REMAINS ABOVE THE FED'S TARGET

U.S. PERSONAL CONSUMPTION EXPENDITURES

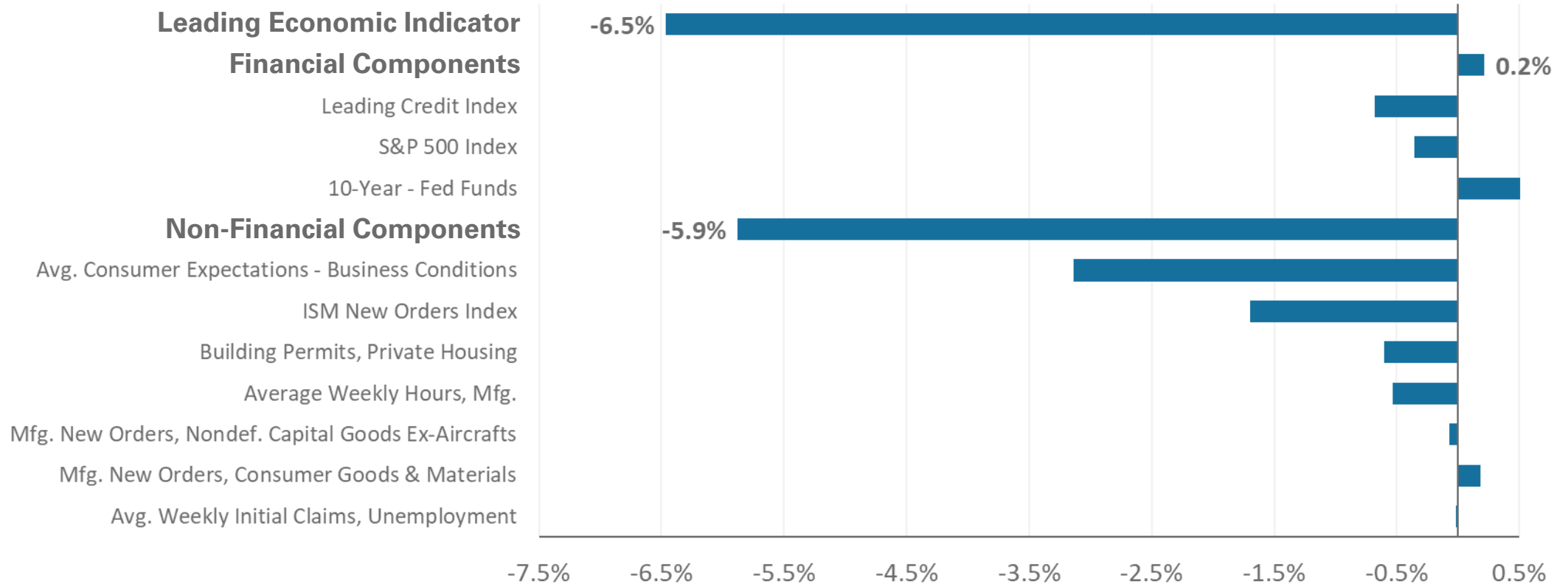


Sources: Bureau of Economic Analysis, FactSet



LEADING INDICATORS HAVE WEAKENED

POCKETS OF THE ECONOMY LIKELY IN A RECESSION, BUT NOT ALL



Notes: LEI change may not equal sum of contributions due to application of a trend adjustment factor; represents trailing 12-month change
Sources: The Conference Board, FactSet



MARKET SENTIMENT HAS IMPROVED

BULLISH SENTIMENT INDEX

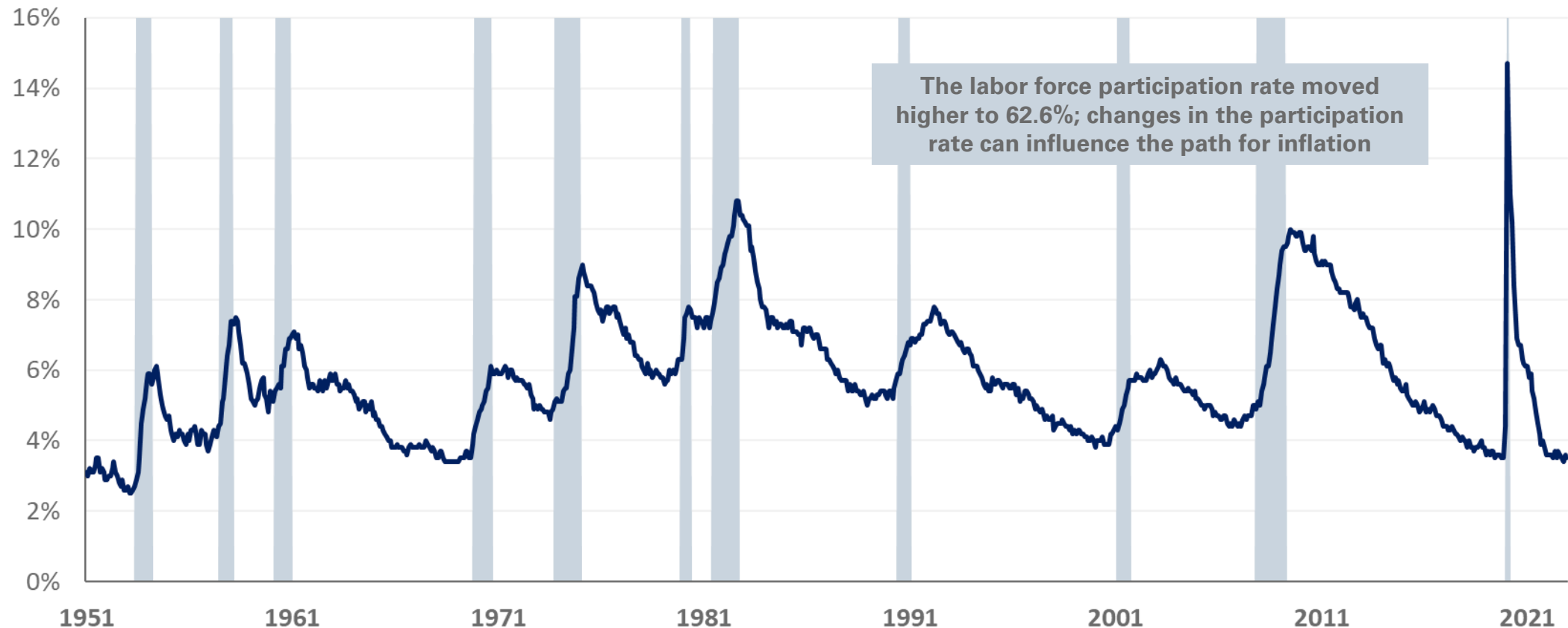


Sources: Investors Intelligence, FactSet



THE LABOR MARKET REMAINS A BRIGHT SPOT

U.S. UNEMPLOYMENT RATE

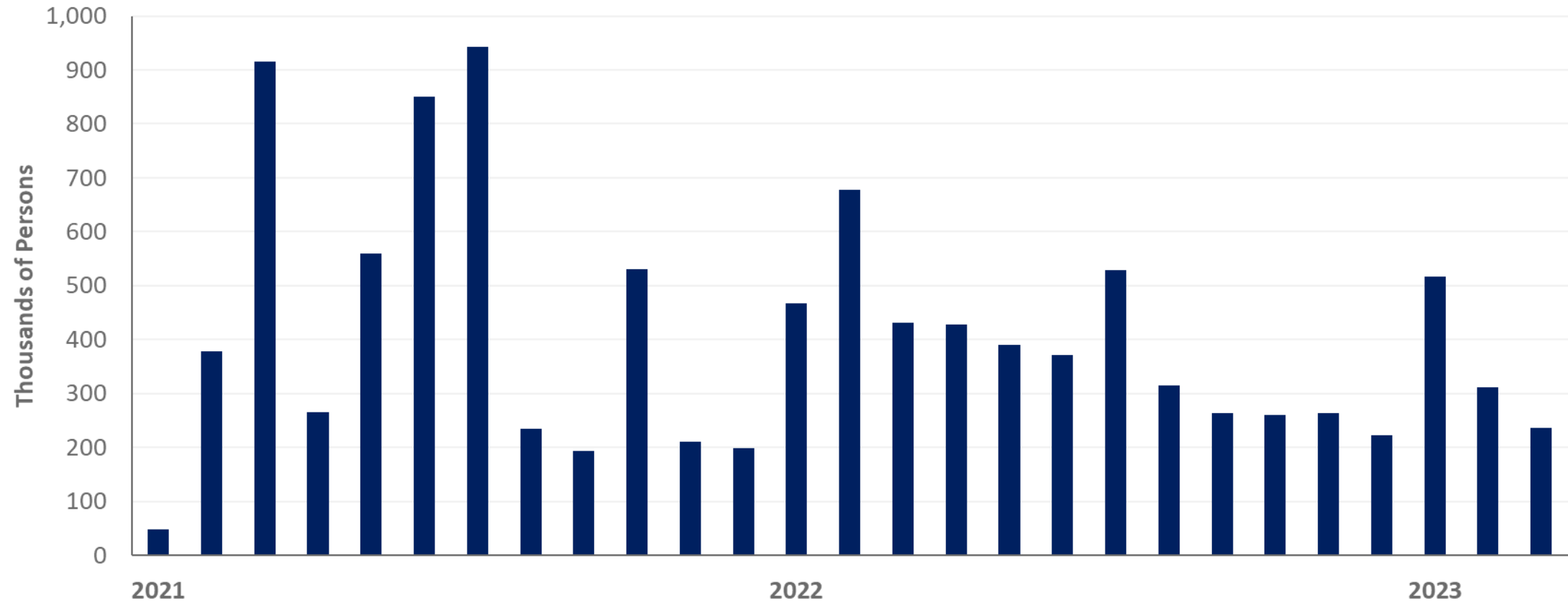


Notes: Shaded time periods represent U.S. recessions defined by the ECRI
Sources: U.S. Department of Labor, FactSet, NEPC



DEMAND FOR LABOR REMAINS STRONG

MONTHLY CHANGE IN EMPLOYEES ON NONFARM PAYROLLS

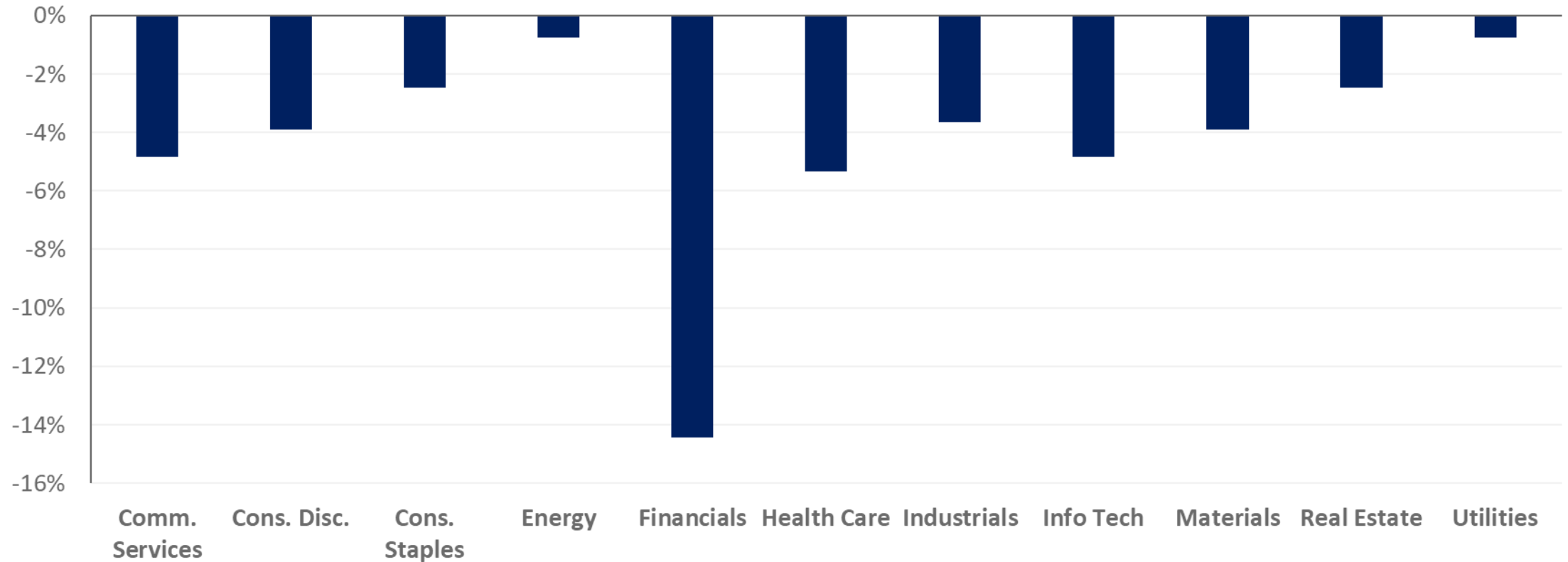


Sources: U.S. Department of Labor, FactSet



EQUITY EARNINGS ESTIMATES HAVE CORRECTED

YEAR-TO-DATE CHANGE IN S&P 2023 EARNINGS ESTIMATES

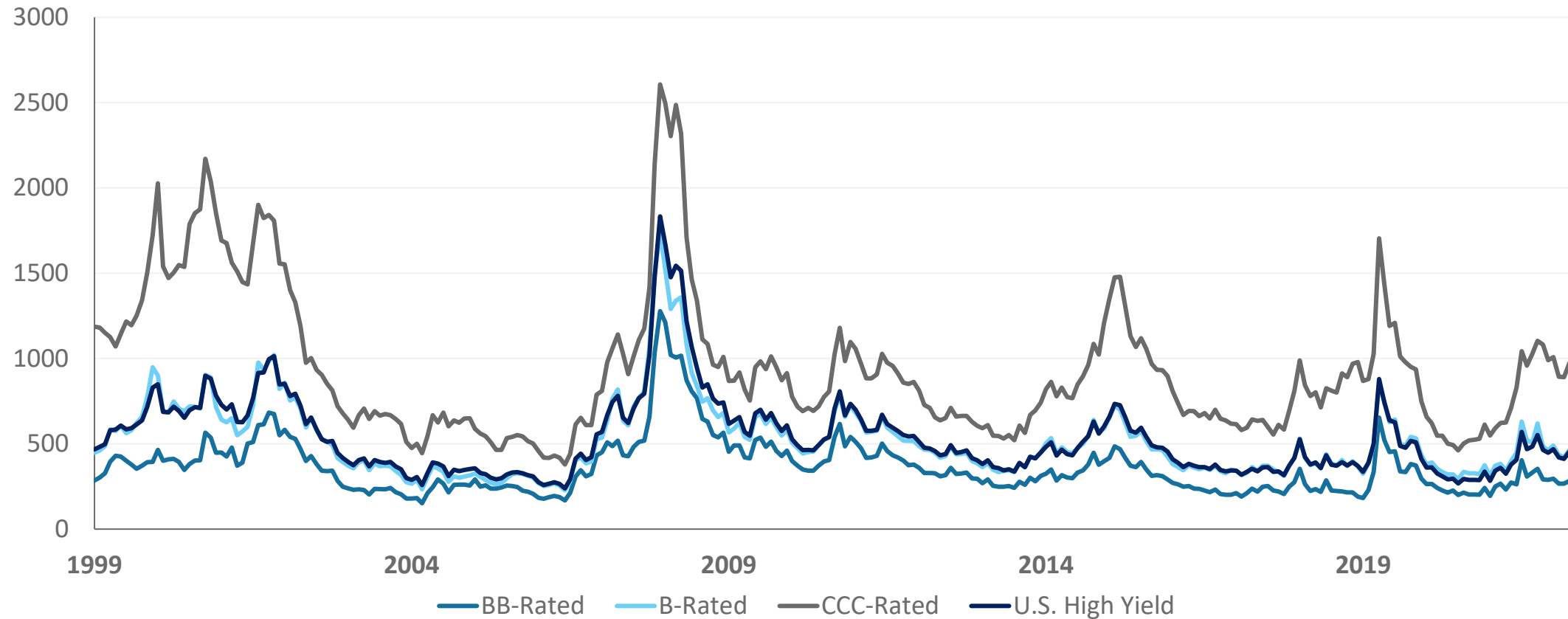


Sources: S&P, FactSet



KEEP AN EYE ON CREDIT SPREADS

U.S. CORPORATE HIGH YIELD SPREADS (BASIS POINTS)



Sources: Bloomberg, FactSet



U.S. ECONOMIC OUTLOOK



The market is struggling to discount the forward path for the U.S. economy given diverging economic data points



Interest rate-sensitive sectors of the economy are realizing the impact of tighter monetary policy – stoking broad recession fears



Resilient data from the services sector and the labor market continue to underpin “no landing” and “soft landing” outcomes



The lending impact from banking sector stress is still being realized – this will be a key determinant of the landing path

PORTFOLIO POSITIONING



PORTFOLIO POSITIONING VIEWS

We recommend **holding equity exposure near strategic targets** and continue to advocate for value exposure in U.S. large-cap equities

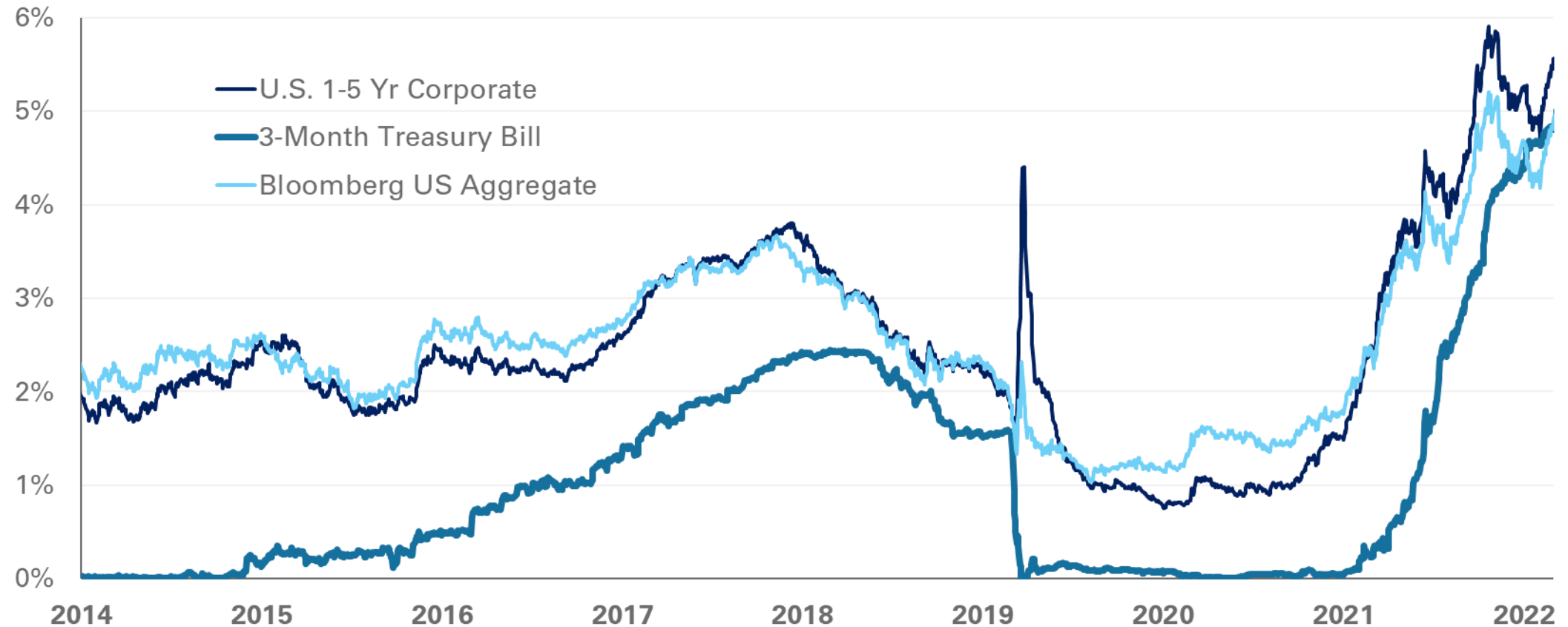
We are **less constructive on short-term investment grade bonds** as the carry benefit versus cash has diminished

Be prepared for equity rebalance opportunities and explore the portfolio benefit of diversifying asset classes

Look to hold greater levels of portfolio liquidity and **maintain safe-haven fixed income duration** in-line with policy targets

CURRENT CASH RATES ARE MORE COMPELLING

BROAD MARKET YIELDS

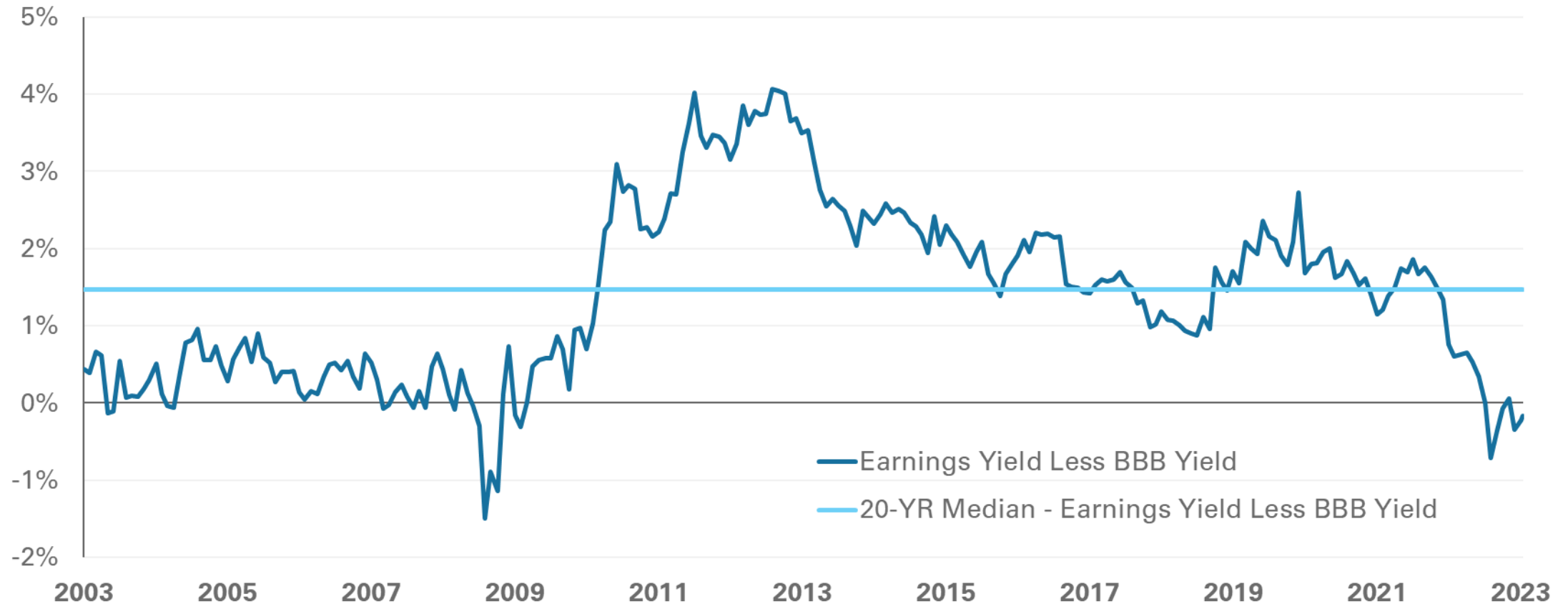


Sources: Bloomberg, FactSet



BROAD EQUITY REMAINS LESS ATTRACTIVE

S&P 500 EARNINGS YIELD LESS BBB BOND YIELD

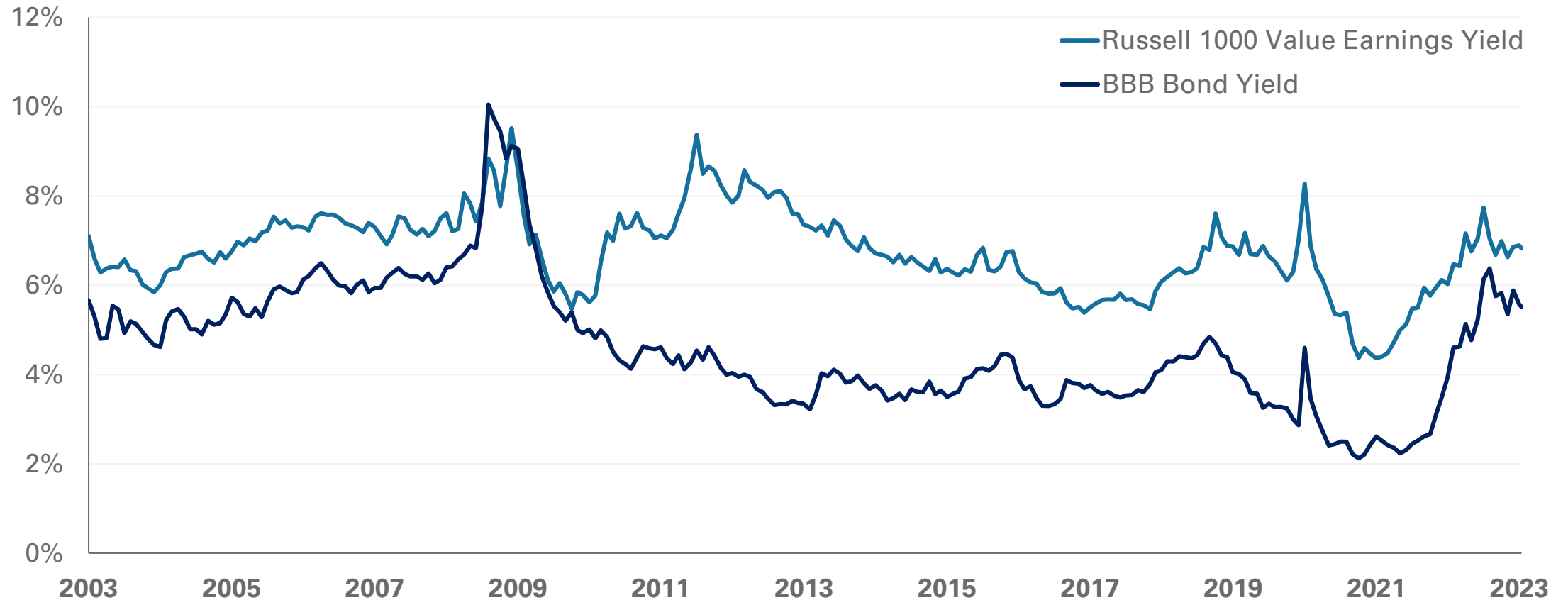


Sources: S&P, FactSet, NEPC



LARGE-CAP VALUE IS PREFERRED EQUITY PROFILE

RUSSELL 1000 VALUE EARNINGS YIELD AND BBB BOND YIELD



Sources: S&P, FactSet, NEPC



QUESTIONS?





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