

NEPC MARKET OUTLOOK

MEGA-CAPS AND THE FED:
WHO BLINKS FIRST?

JULY 13, 2023

Jennifer Appel, CFA
Phillip Nelson, CFA



PRESENTERS



**Jennifer Appel,
CFA**

Sr. Investment Director,
Asset Allocation

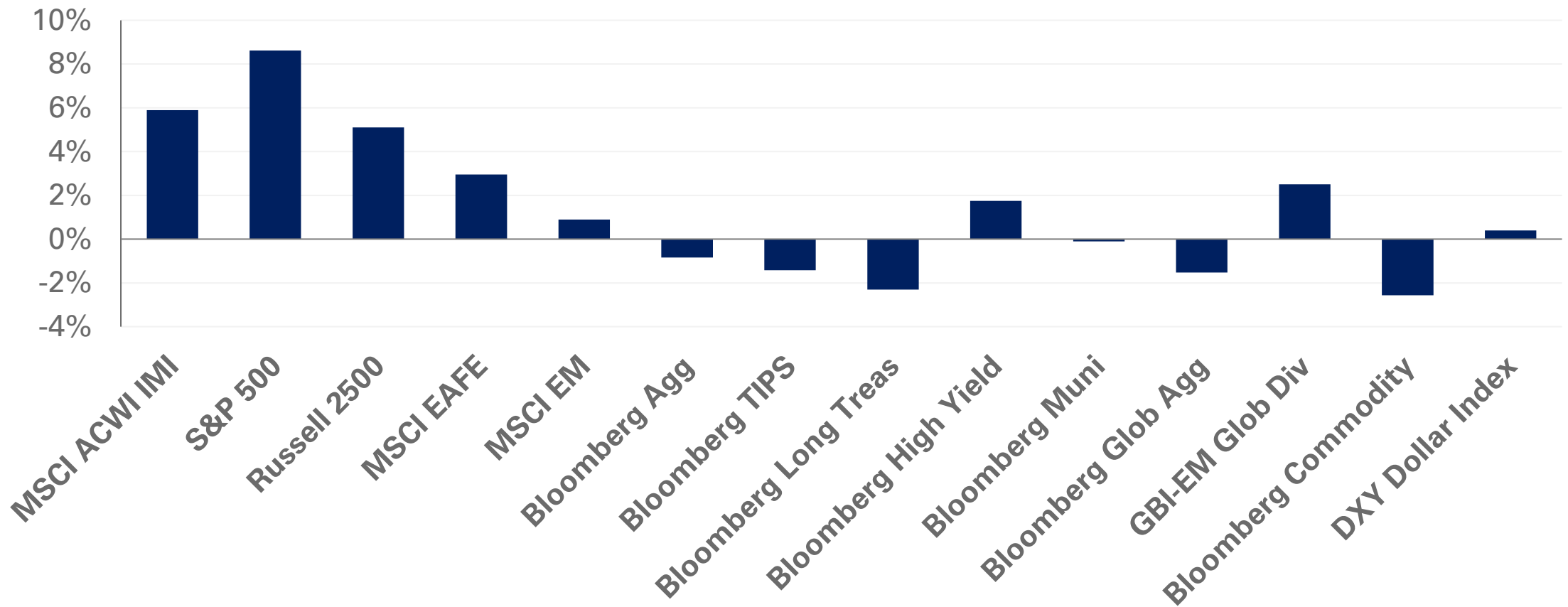


**Phillip Nelson,
CFA**

Partner, Head of
Asset Allocation

U.S. EQUITIES OUTPERFORMED

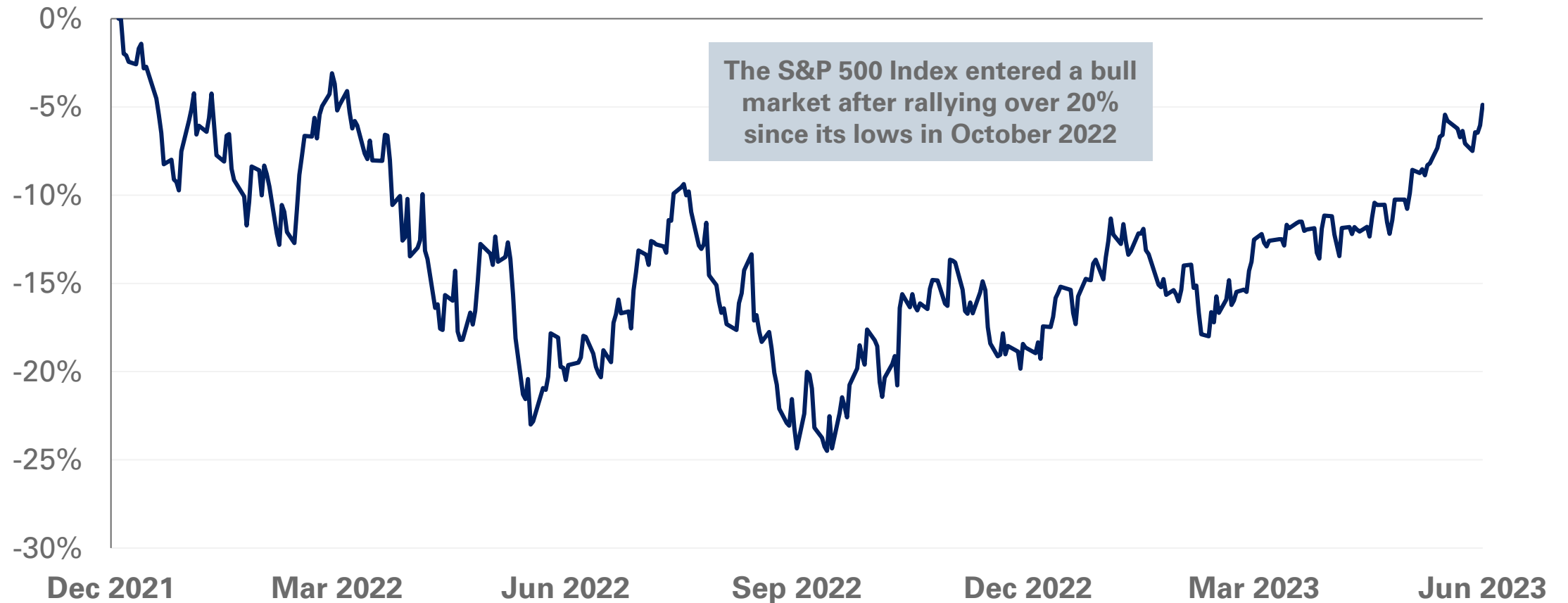
QUARTERLY TOTAL RETURNS



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

THE BULLS ARE (TECHNICALLY) BACK

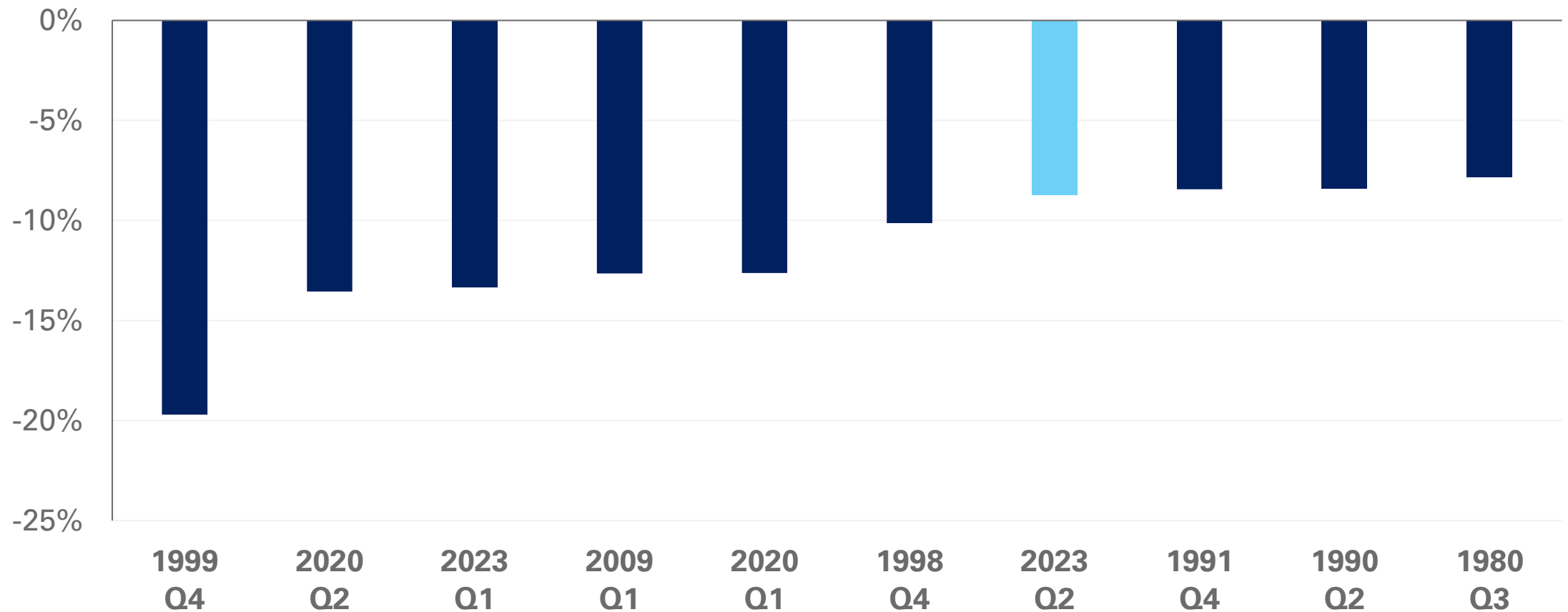
S&P CUMULATIVE TOTAL RETURNS



Sources: S&P, FactSet

GROWTH OUTPERFORMED VALUE

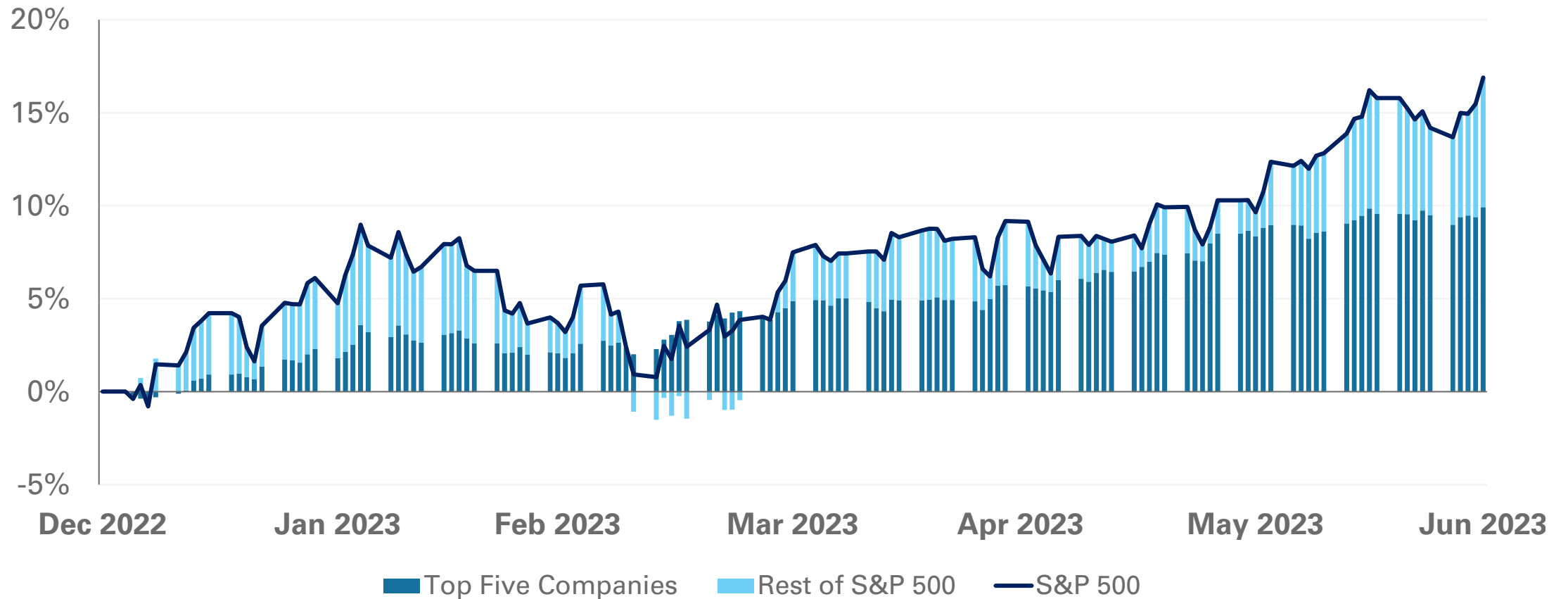
TOP 10: RUSSELL 1000 GROWTH – VALUE QUARTERLY RETURNS



Sources: Russell, FactSet

TOP FIVE COMPANIES LED THE S&P 500 HIGHER

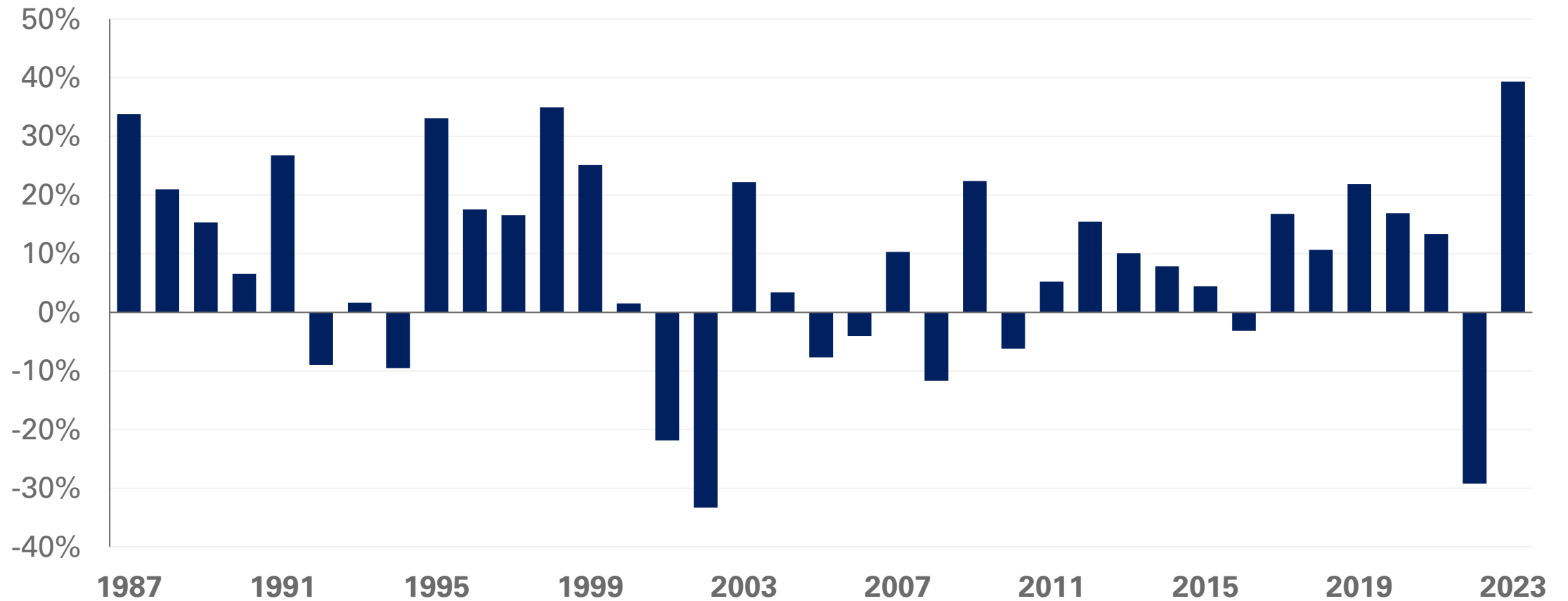
CUMULATIVE TOTAL RETURNS



Top Five Companies represent Apple, Amazon, Alphabet, Microsoft, and NVidia,
Source: FactSet

BEST START FOR THE NASDAQ 100

NASDAQ 100 FIRST SIX-MONTH RETURN



Sources: Nasdaq, FactSet

LARGE-CAP TECH NEARING PEAK VALUATIONS

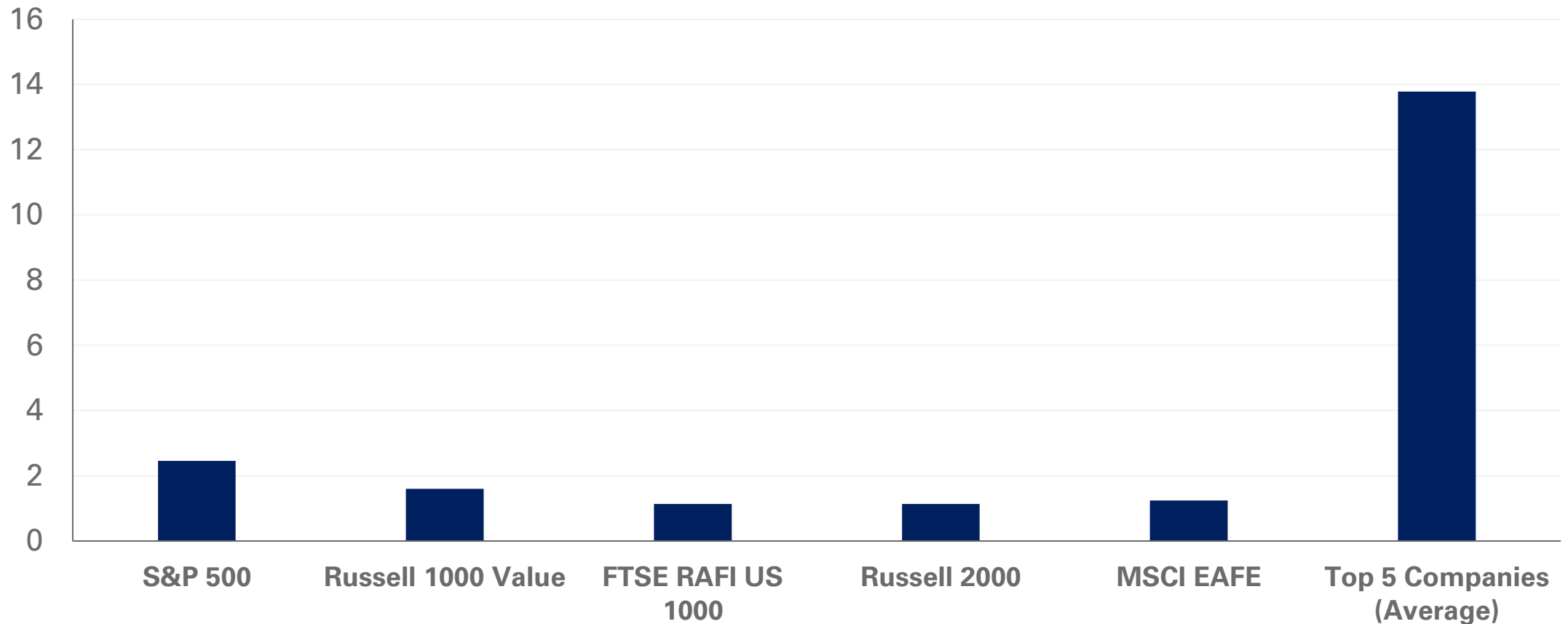
MARKET CAPITALIZATION: NASDAQ 100 VERSUS RUSSELL 2000



Sources: Nasdaq, Russell, FactSet

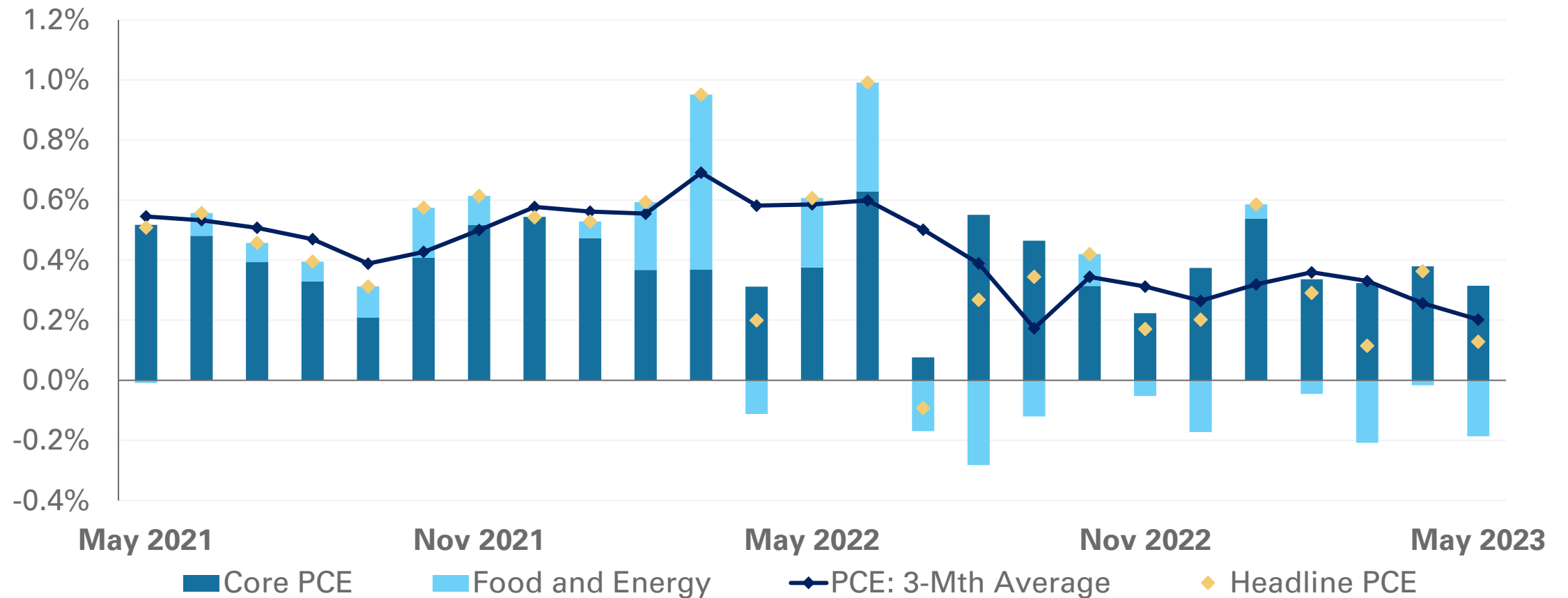
S&P 500 AND MEGA-CAPS APPEAR EXPENSIVE

PRICE TO SALES: LAST TWELVE MONTHS



CORE INFLATION REMAINED ELEVATED

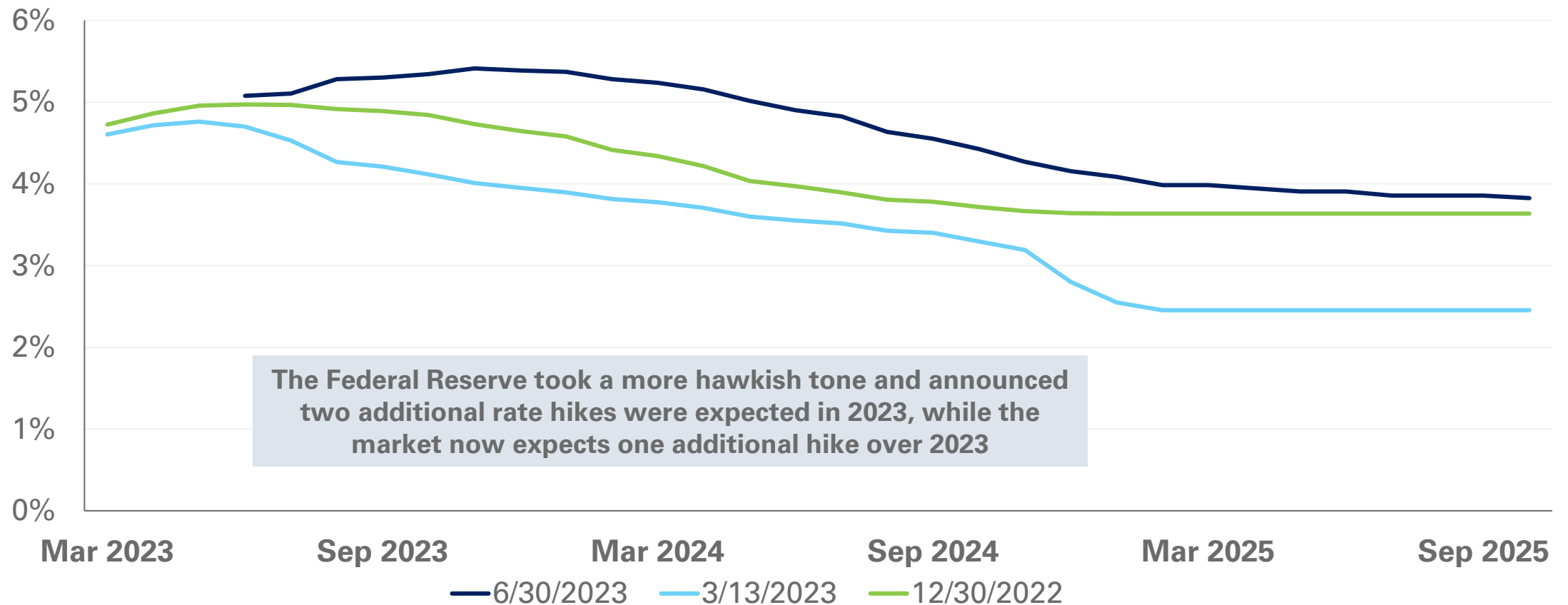
MONTHLY U.S. PCE PRICE INDEX CHANGES



Sources: Bureau of Economic Analysis, FactSet

MARKET RATE HIKE EXPECTATIONS ROSE

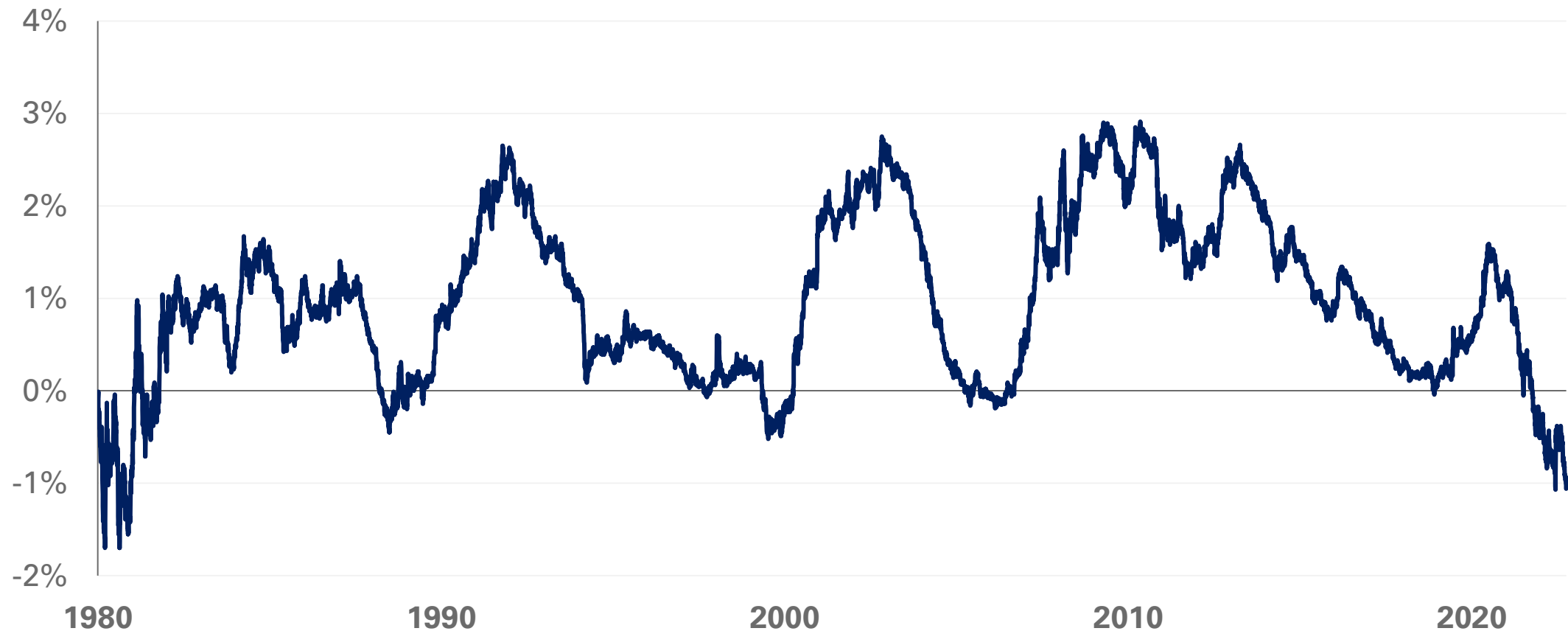
FEDERAL FUNDS FUTURES



3/13/2023 represents the Monday after the collapse of Silicon Valley Bank
Source: FactSet

THE YIELD CURVE FURTHER INVERTED

10-2 U.S. TREASURY YIELD SPREAD



MEGA-CAPS AND THE FED

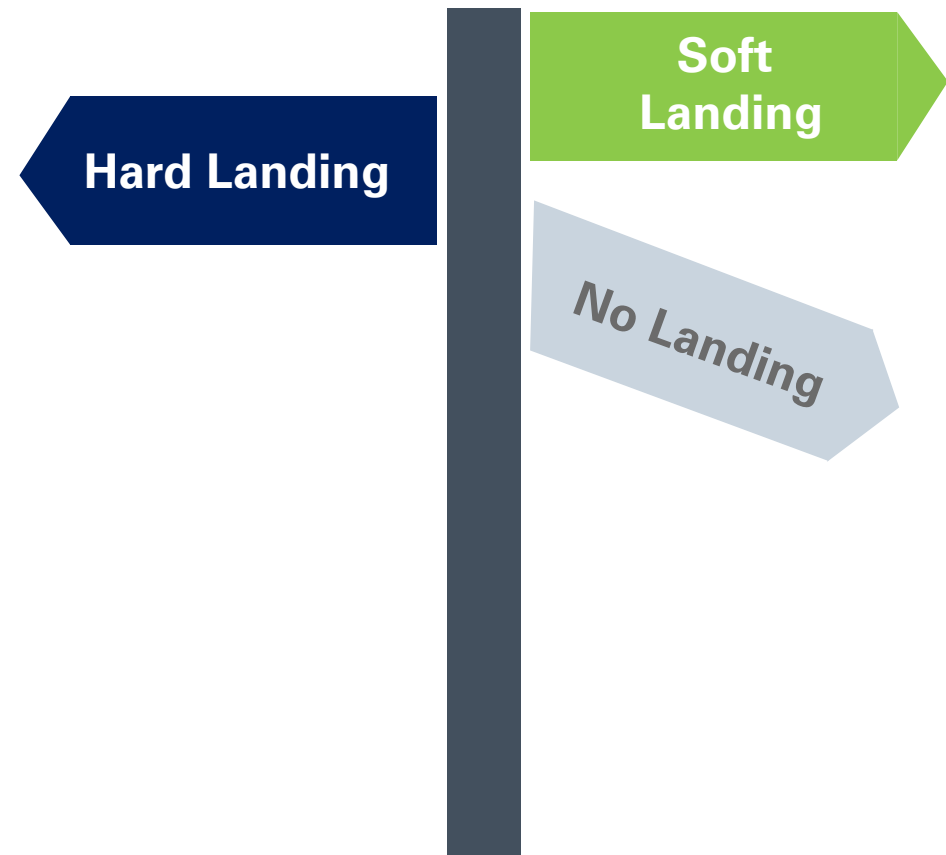
Who Blinks First?



A DATA CONUNDRUM

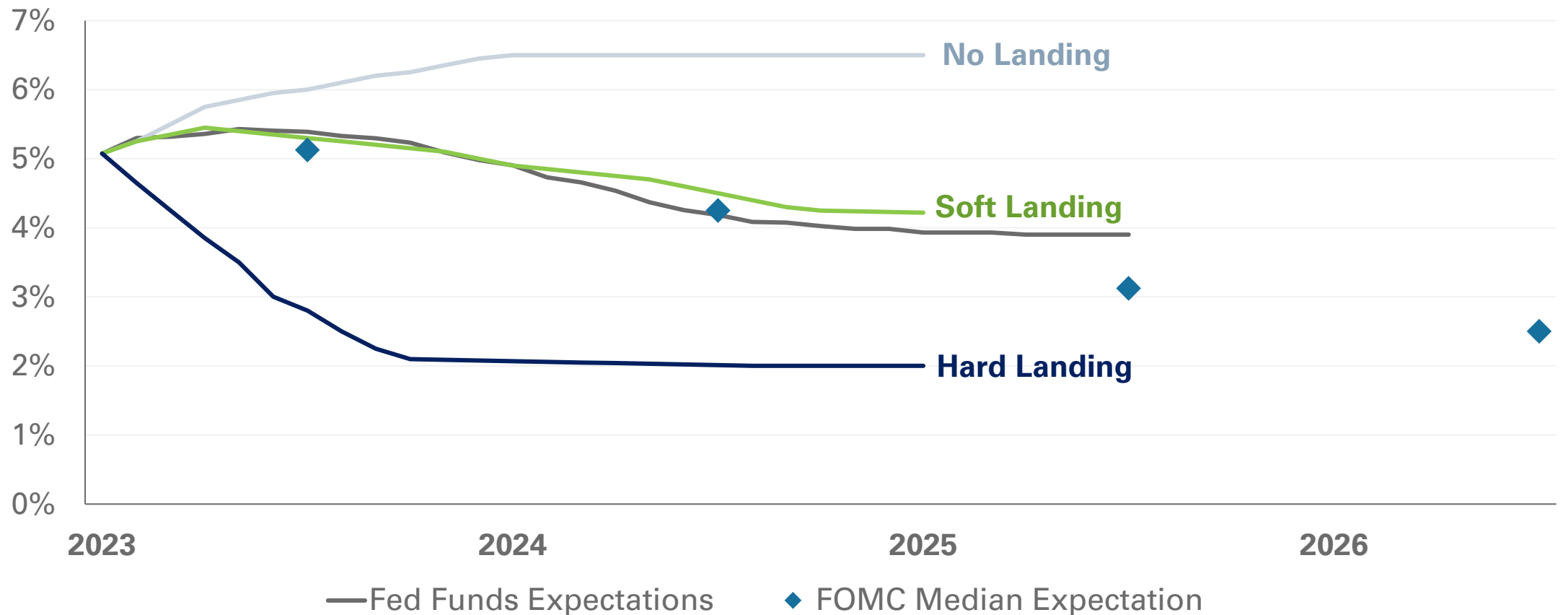
THE MARKET IS DIGESTING THREE DISTINCT ECONOMIC OUTCOMES

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



MARKET PRICING CONVERGING WITH THE FOMC

THE FED DOT PLOT VERSUS FED FUNDS FUTURES



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

LEADING INDICATORS POINT TO A RECESSION

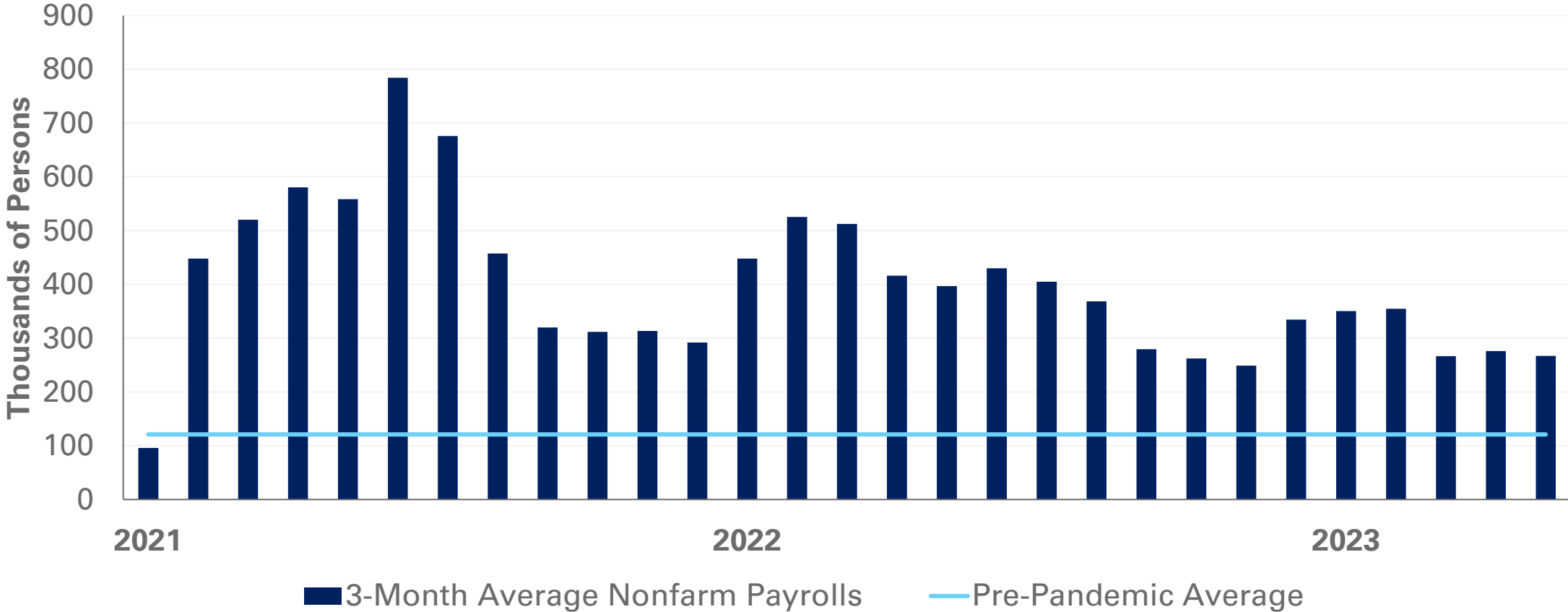
12-MONTH CHANGE IN S&P 500 INDEX AND LEI



Sources: Conference Board U.S., S&P, FactSet

LABOR MARKET DEMAND IS STILL STRONG

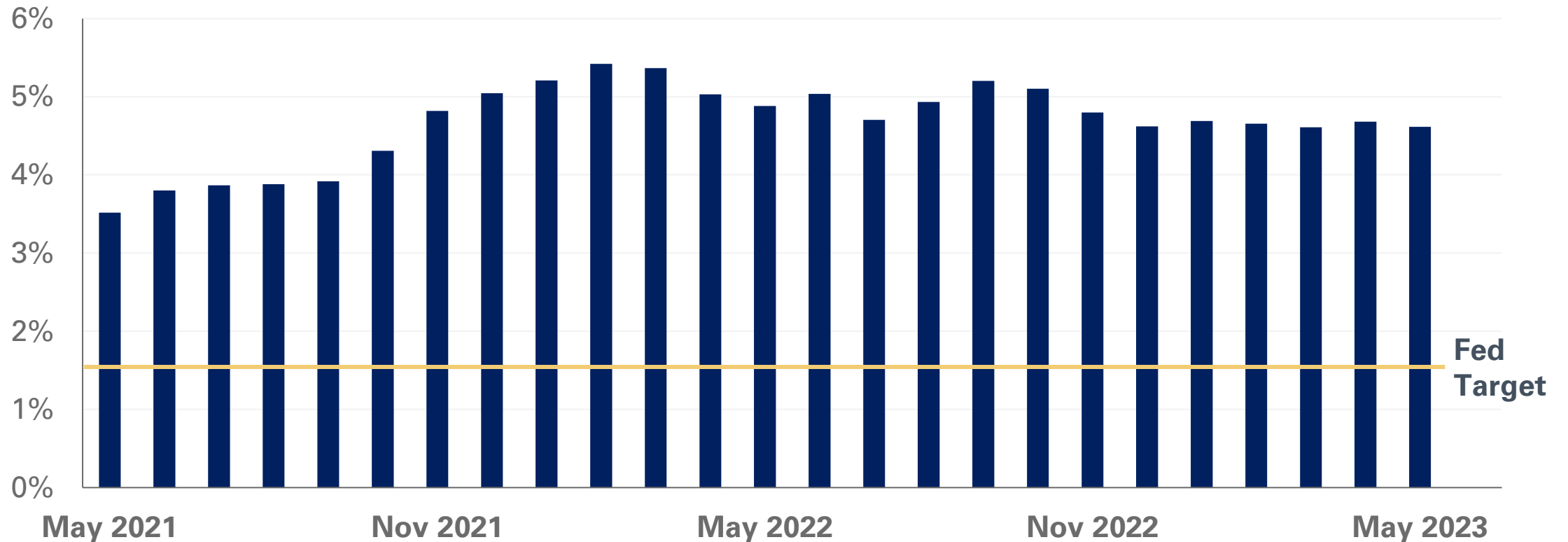
U.S. EMPLOYEES ON NONFARM PAYROLLS



Sources: U.S. Department of Labor, FactSet, NEPC

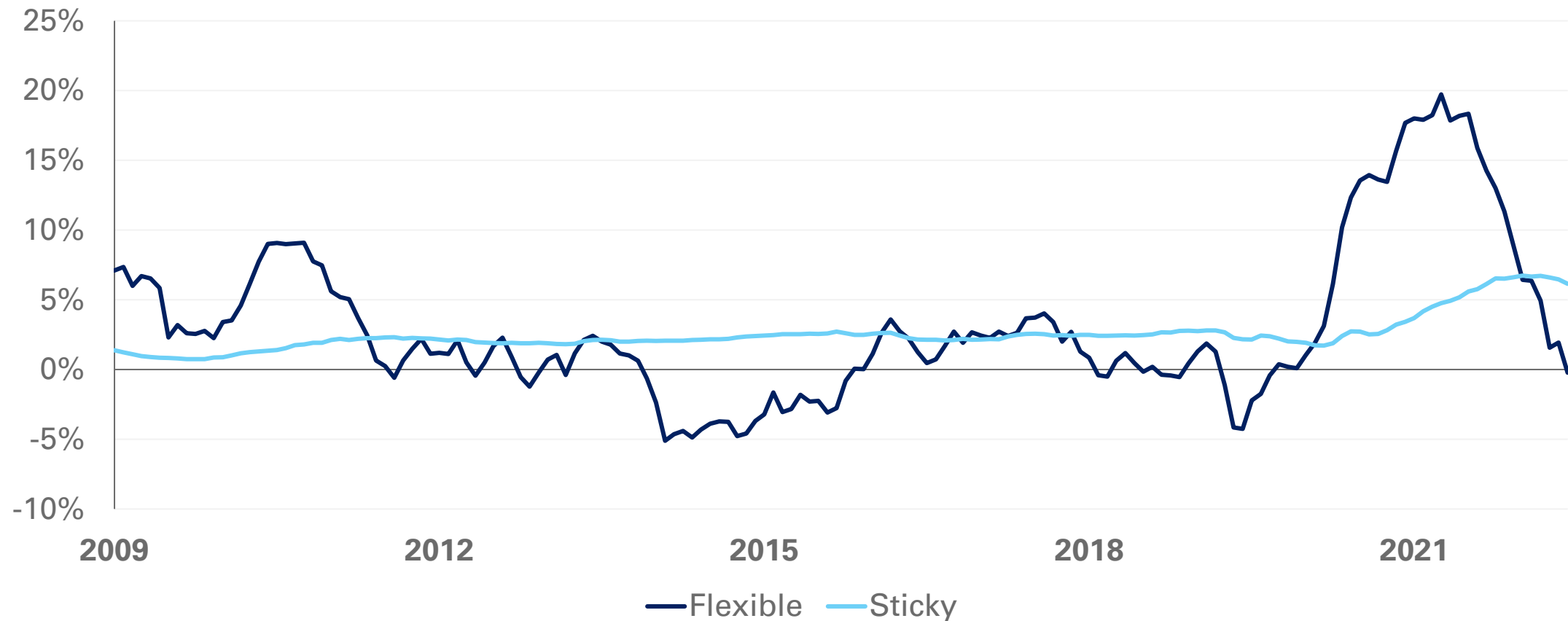
INFLATION REMAINS ABOVE THE FED'S TARGET

ANNUAL CHANGE IN CORE PCE



STICKY INFLATION FACTORS ARE ELEVATED

FLEXIBLE VERSUS STICKY INFLATION PRESSURES



Notes: "Sticky" refers to a weighted basket of items that change price relatively slowly.
Source: Federal Reserve Bank of Atlanta

U.S. ECONOMIC OUTLOOK



Market expectations for interest rates have converged with FOMC projections – signaling a higher-for-longer bias



Interest rate-sensitive sectors of the economy are still realizing the impact of a tighter monetary policy environment



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

PORTFOLIO POSITIONING



PORTFOLIO POSITIONING VIEWS

Look to **reduce S&P 500 and U.S. mega-cap equity exposure** while maintaining U.S. value positions

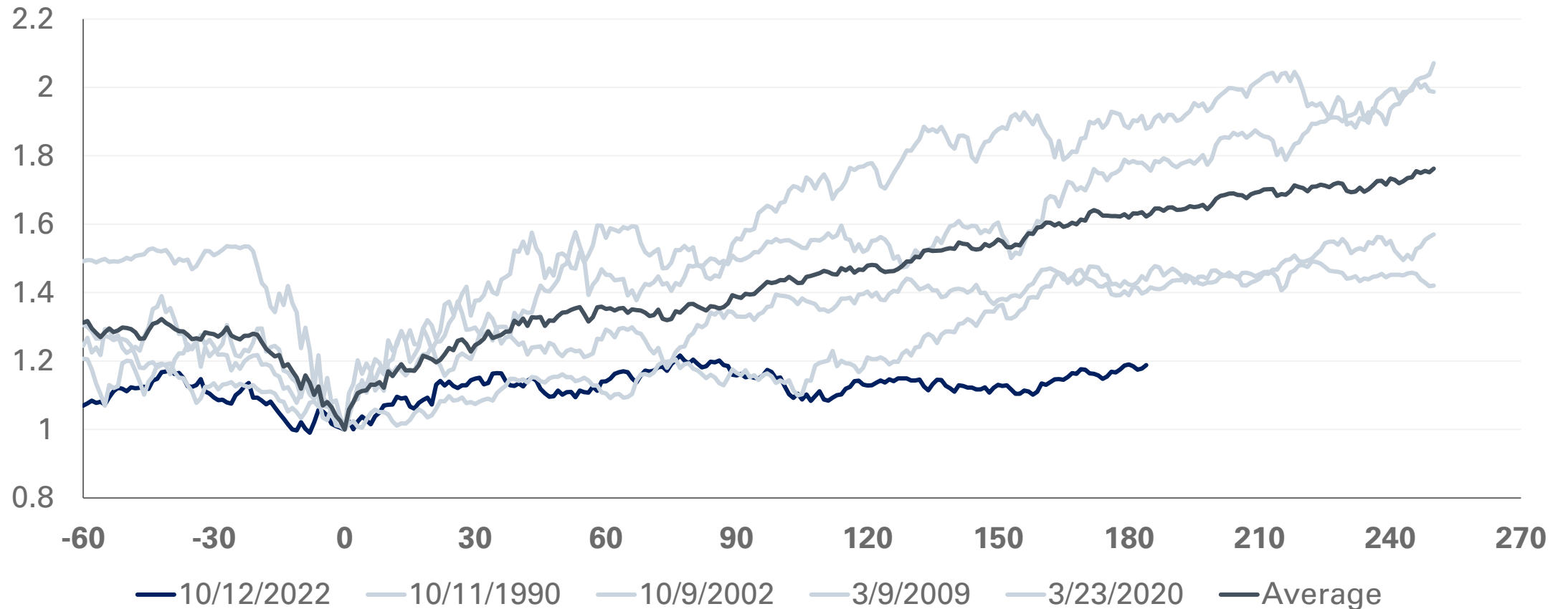
We believe **U.S. high yield bonds offer a greater return** relative to U.S. large-cap equity and we recommend increasing exposure

We recommend **tilting equity exposure to global equity strategies** and encourage greater usage of active equity approaches

Look to **hold greater levels of cash** within safe-haven fixed income to target opportunistic investments that may arise in the coming years

EQUITY DYNAMICS ARE NOT SUSTAINABLE

S&P EQUAL-WEIGHT FOLLOWING BEAR MARKET BOTTOMS



Notes: 0 represents the market bottom
Sources: S&P, FactSet



RECENT U.S. MEGA-CAP RALLY IS SIGNIFICANT

S&P 500 VERSUS S&P EQUAL WEIGHT INDEX TRAILING RETURN

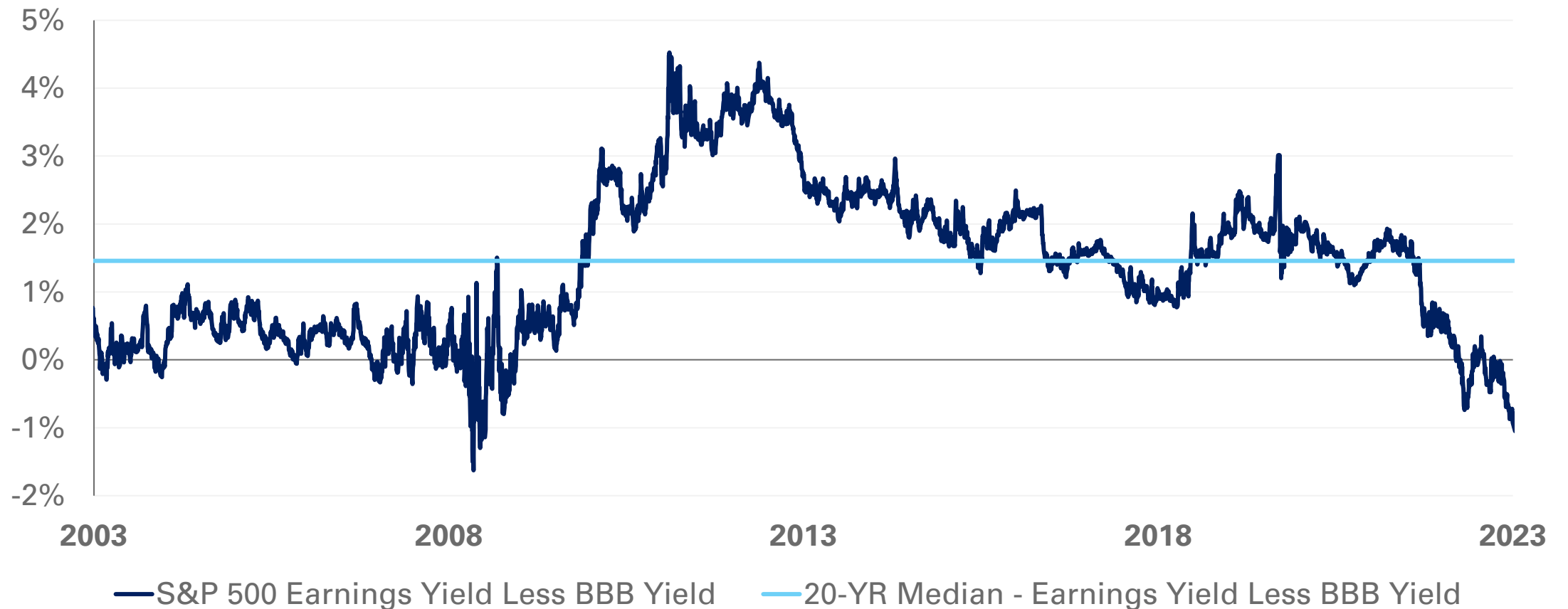


Notes: Trailing 250 Day relative performance
Sources: S&P, FactSet, NEPC



S&P REMAINS LESS ATTRACTIVE

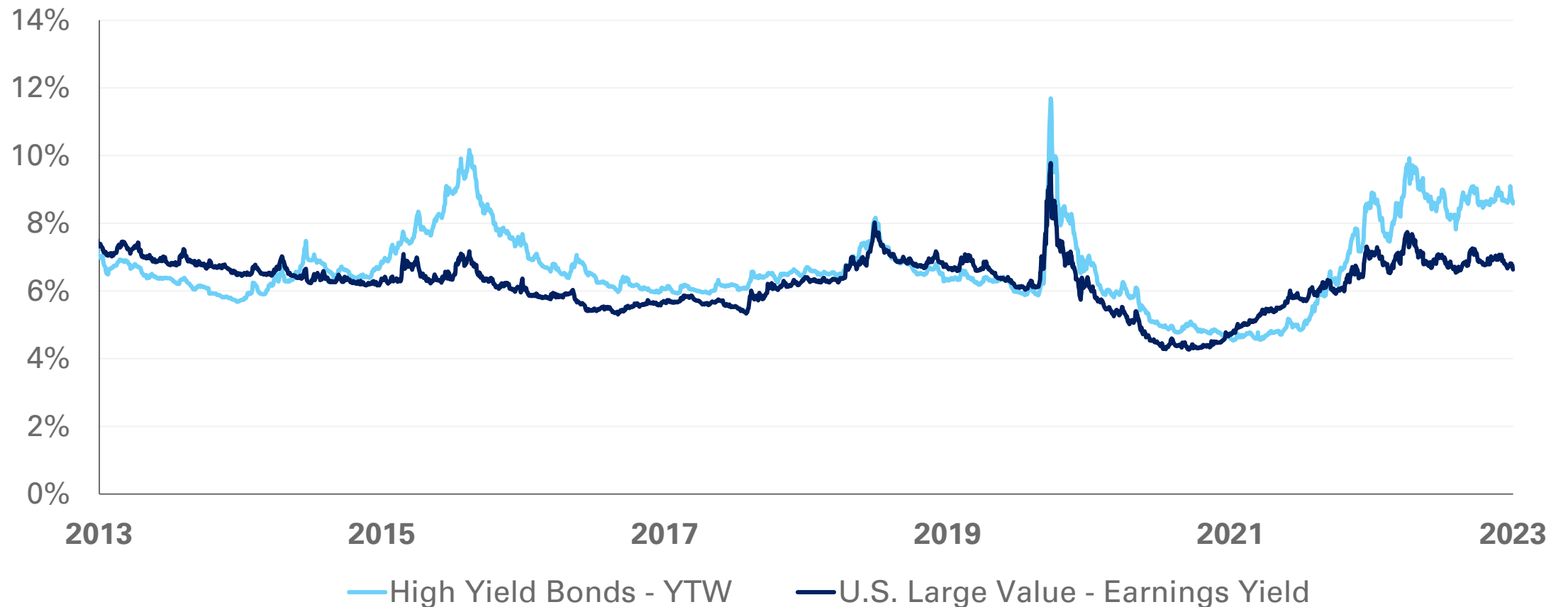
S&P 500 EARNINGS YIELD LESS BBB BOND YIELD



Sources: S&P, FactSet, NEPC

VALUE AND U.S. HIGH YIELD APPEAR ATTRACTIVE

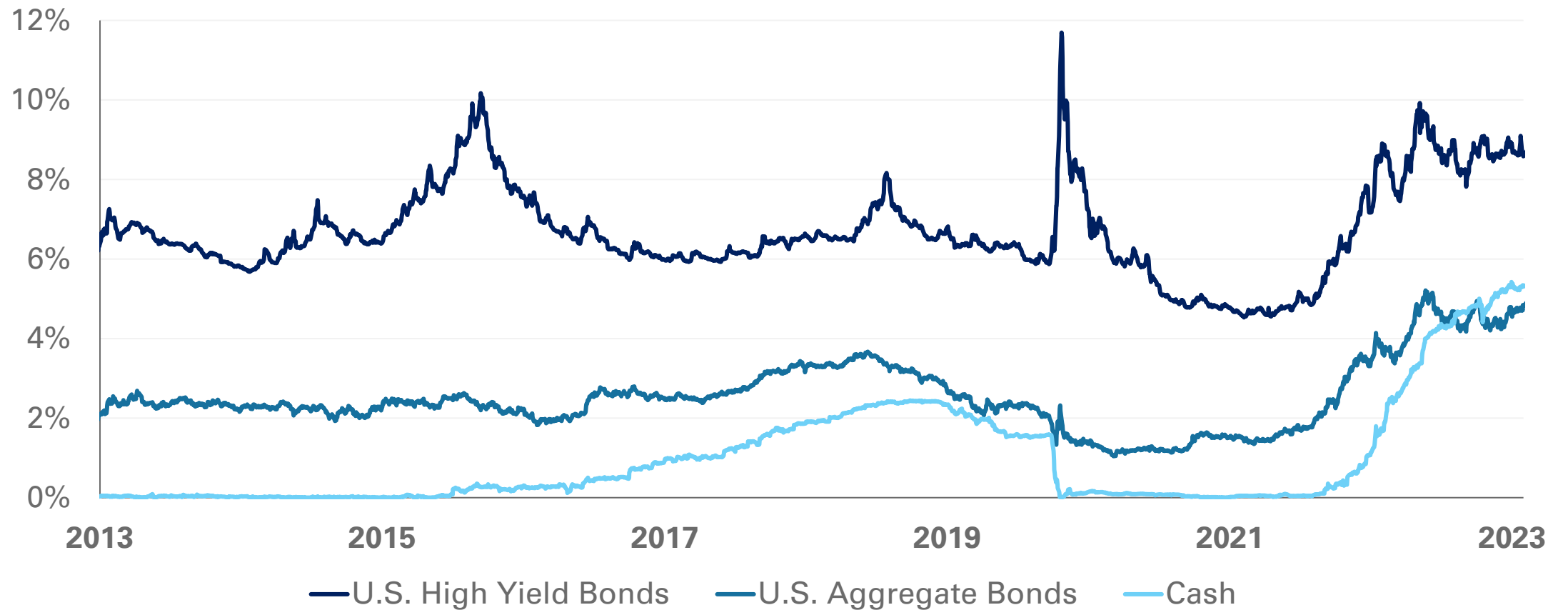
U.S. LARGE VALUE EARNINGS YIELD AND HIGH YIELD BONDS



Sources: Bloomberg, Russell, FactSet

U.S. HIGH YIELD OFFERS A CARRY BENEFIT

MARKET YIELD COMPARISON



Notes: S&P yield reflects last twelve months earnings yield
Sources: Bloomberg, S&P, FactSet



QUESTIONS?



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THANK YOU

