

# NEPC MARKET OUTLOOK

THE (DOT) PLOT THICKENS FOR THE  
U.S. ECONOMY

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# PRESENTERS



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Sr. Investment  
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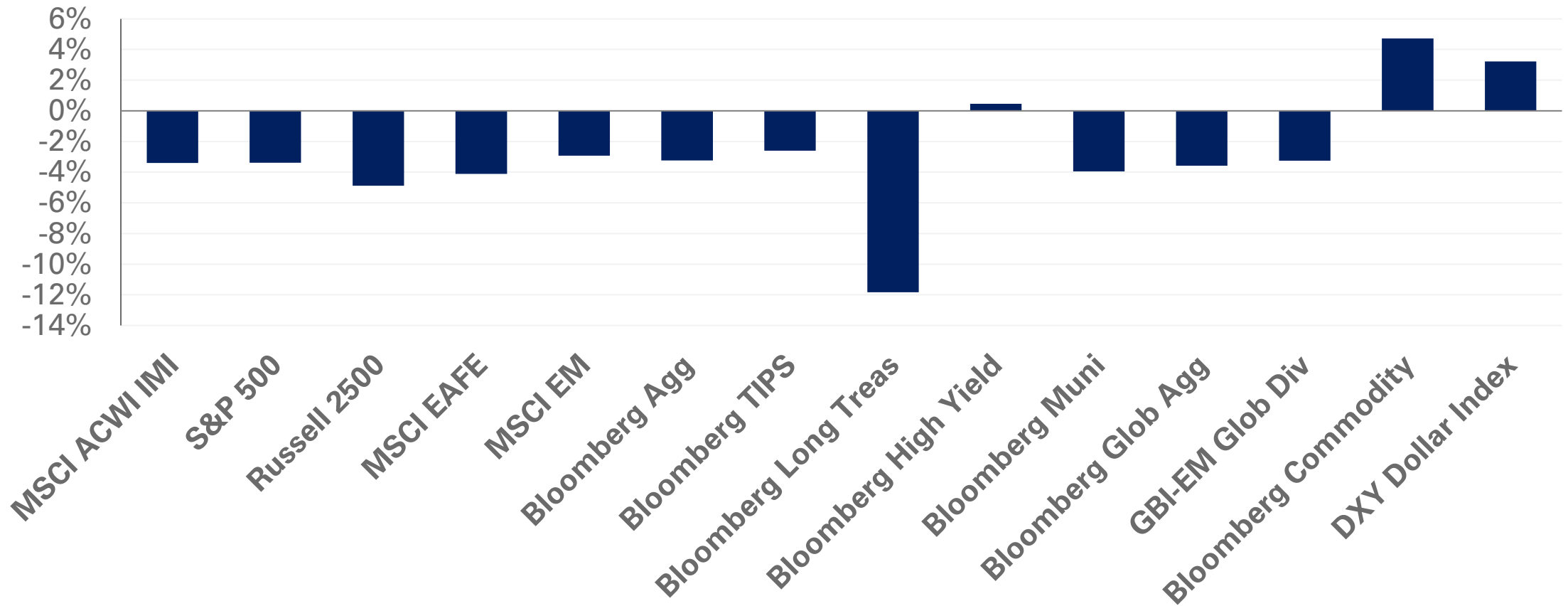


**Phillip Nelson,  
CFA**

Partner,  
Head of  
Asset Allocation

# RISING REAL RATES SENT ASSET PRICES LOWER

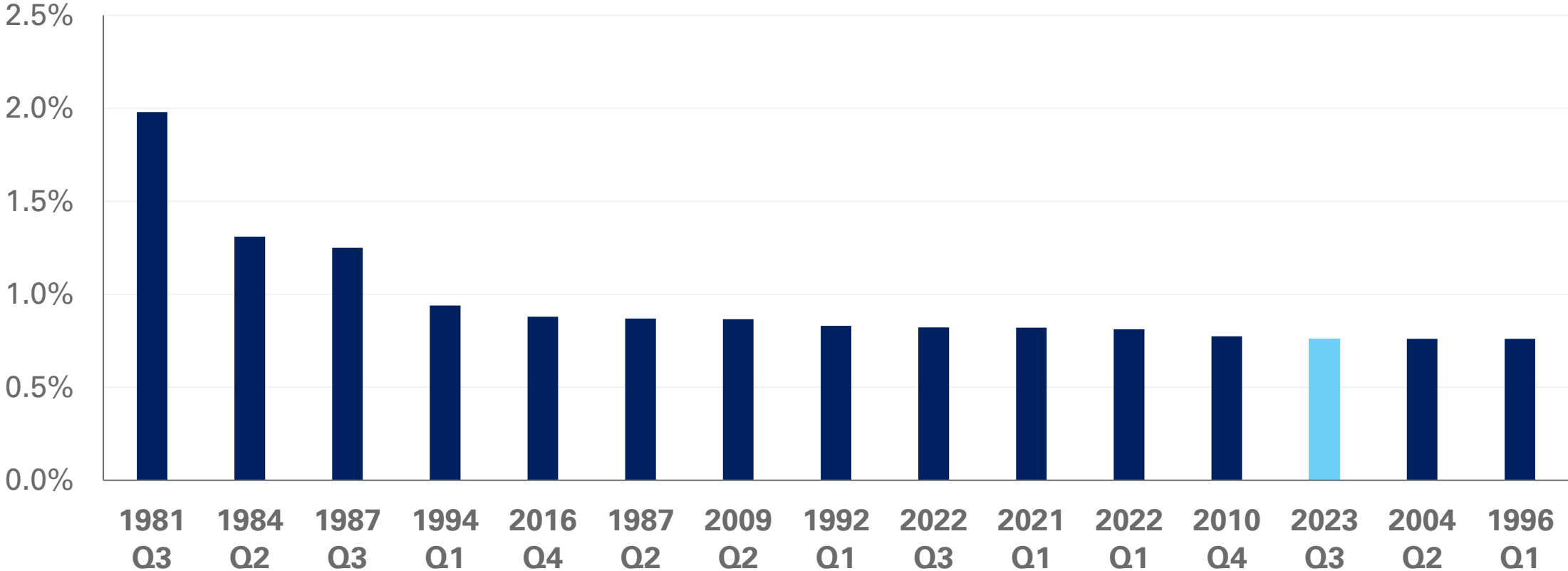
## QUARTERLY TOTAL RETURNS



Sources: MSCI, S&P, Russell, Bloomberg, JP Morgan, FactSet

# 10-YEAR YIELDS ROSE SIGNIFICANTLY

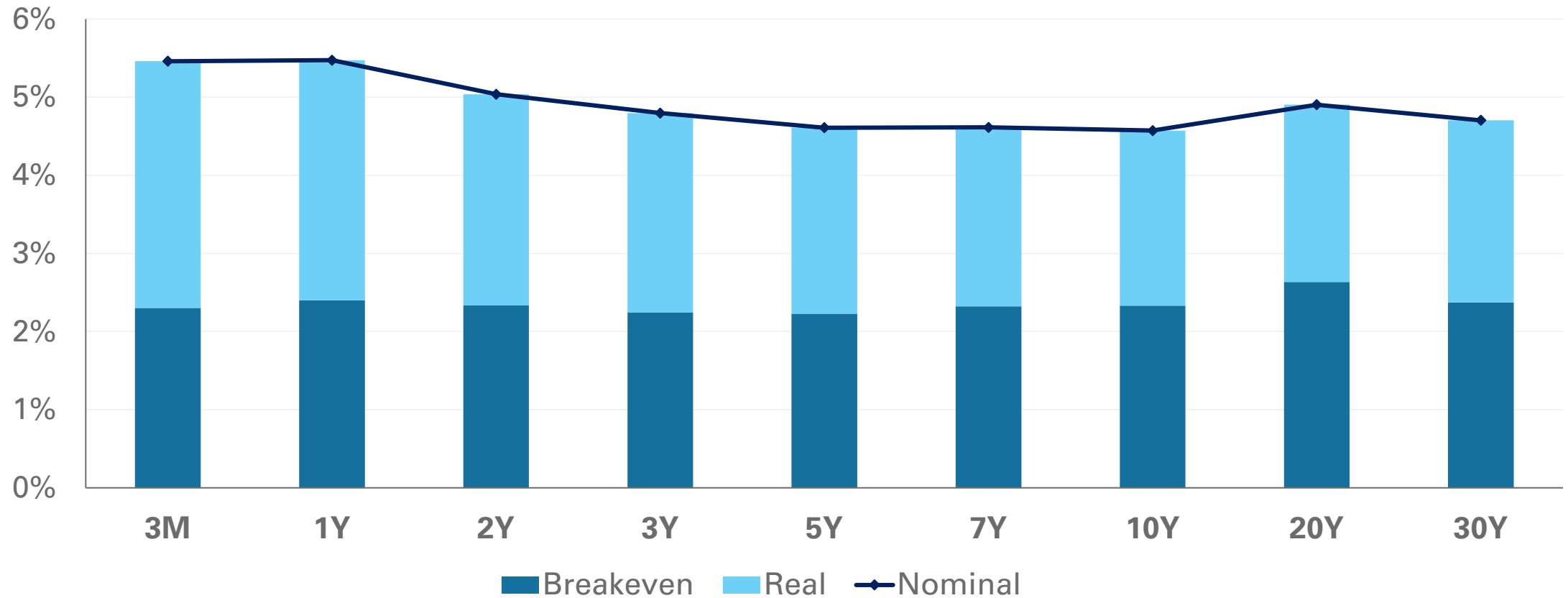
TOP 15 QUARTERLY CHANGE: 10-YEAR U.S. TREASURY YIELD



Calculated based on data as of 12/31/1980  
Source: FactSet

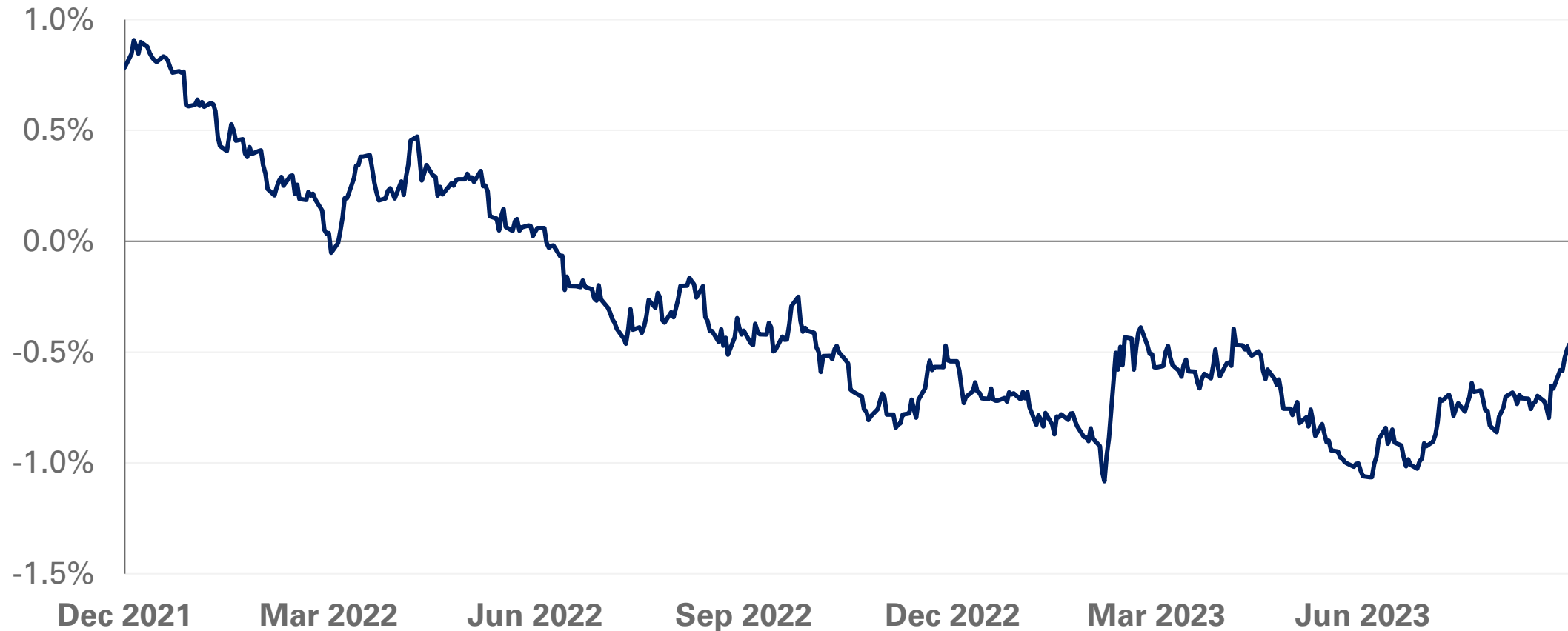
# HIGHER REAL RATES LIFTED THE YIELD CURVE

## U.S. YIELD CURVE



# THE 10-2 YIELD CURVE INVERSION NARROWED

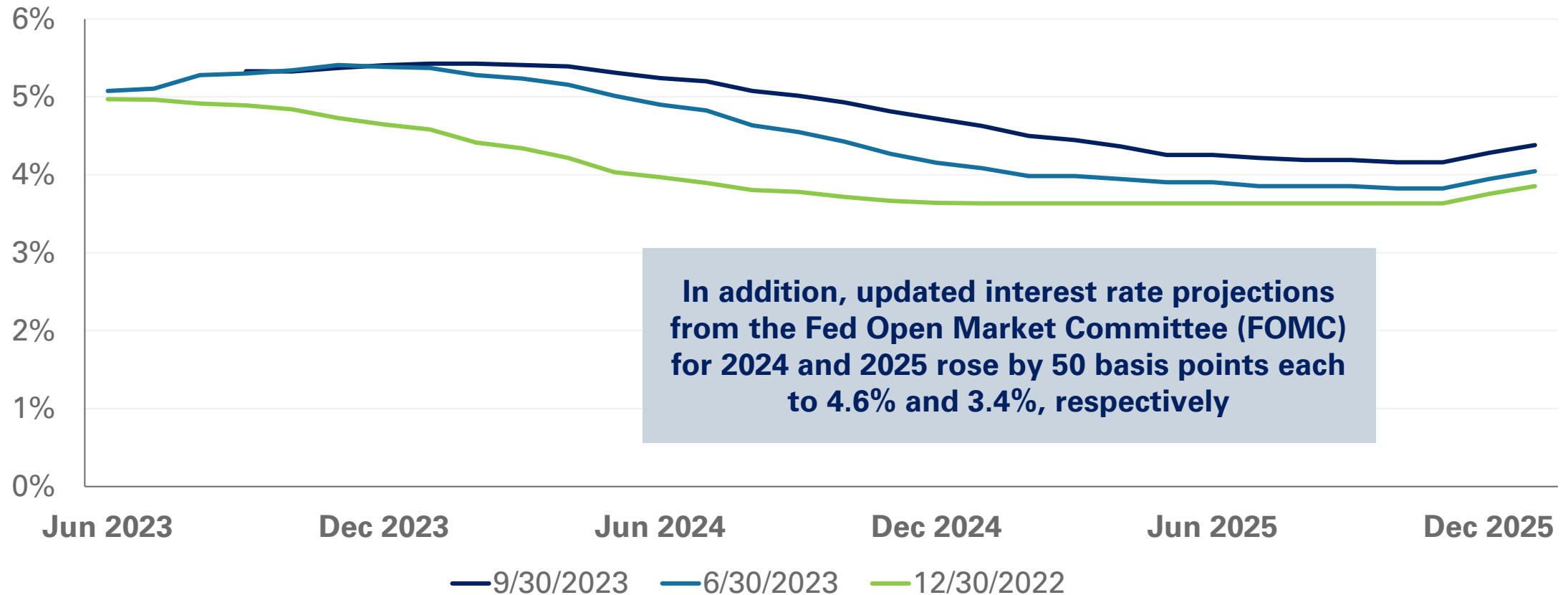
10 YEAR – 2 YEAR U.S. TREASURY SPREAD



Source: FactSet

# THE MARKET IS PRICING IN "HIGHER FOR LONGER"

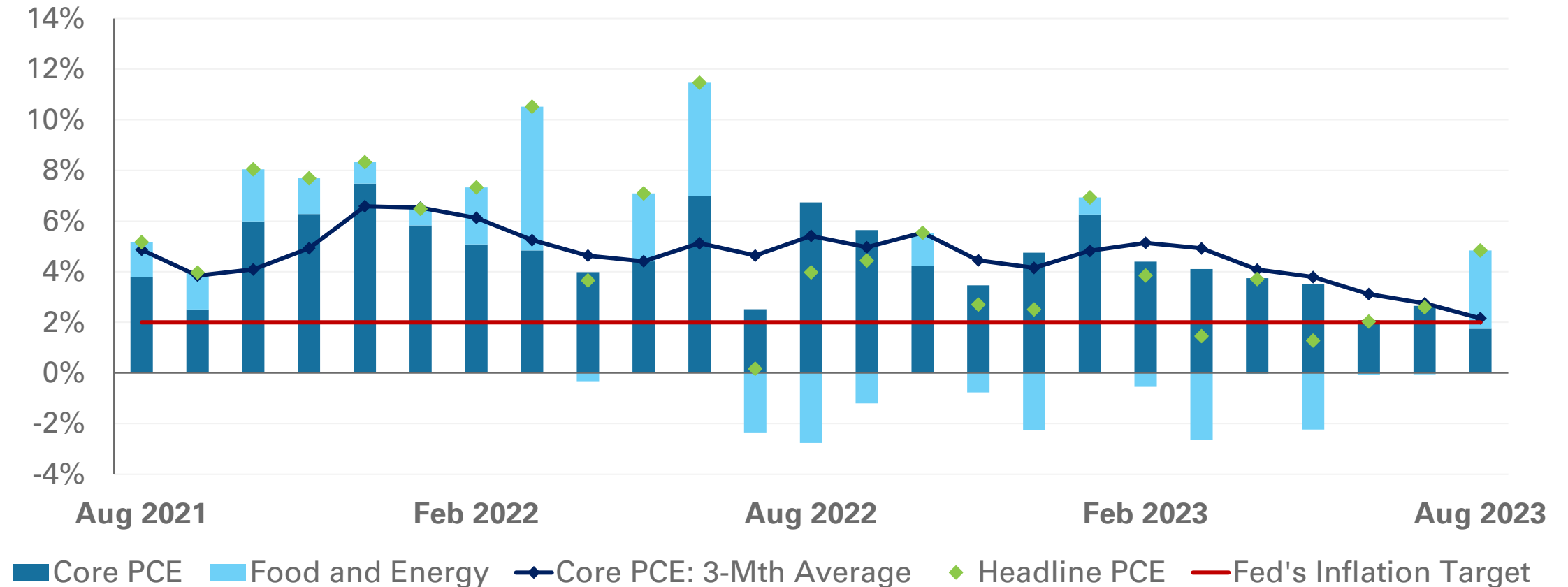
## FEDERAL FUND FUTURES



Source: FactSet

# CORE INFLATION NEAR FED'S INFLATION TARGET

## ANNUALIZED MONTHLY U.S. PCE PRICE INDEX CHANGES

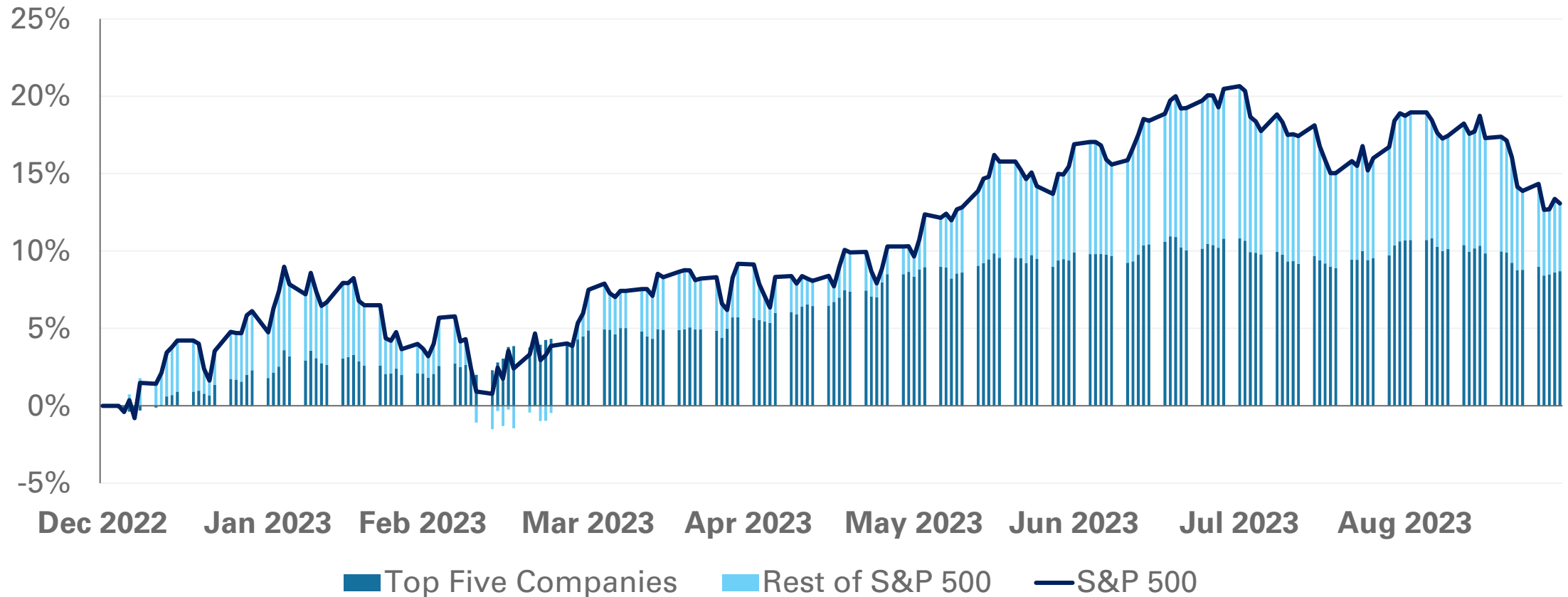


Sources: Department of Labor, FactSet



# TOP FIVE COMPANIES SUPPORTED THE S&P 500

## CONTRIBUTIONS TO TOTAL RETURN



Sources: S&P, FactSet, NEPC

# BREADTH OF STOCK RETURNS HAS BEEN POOR

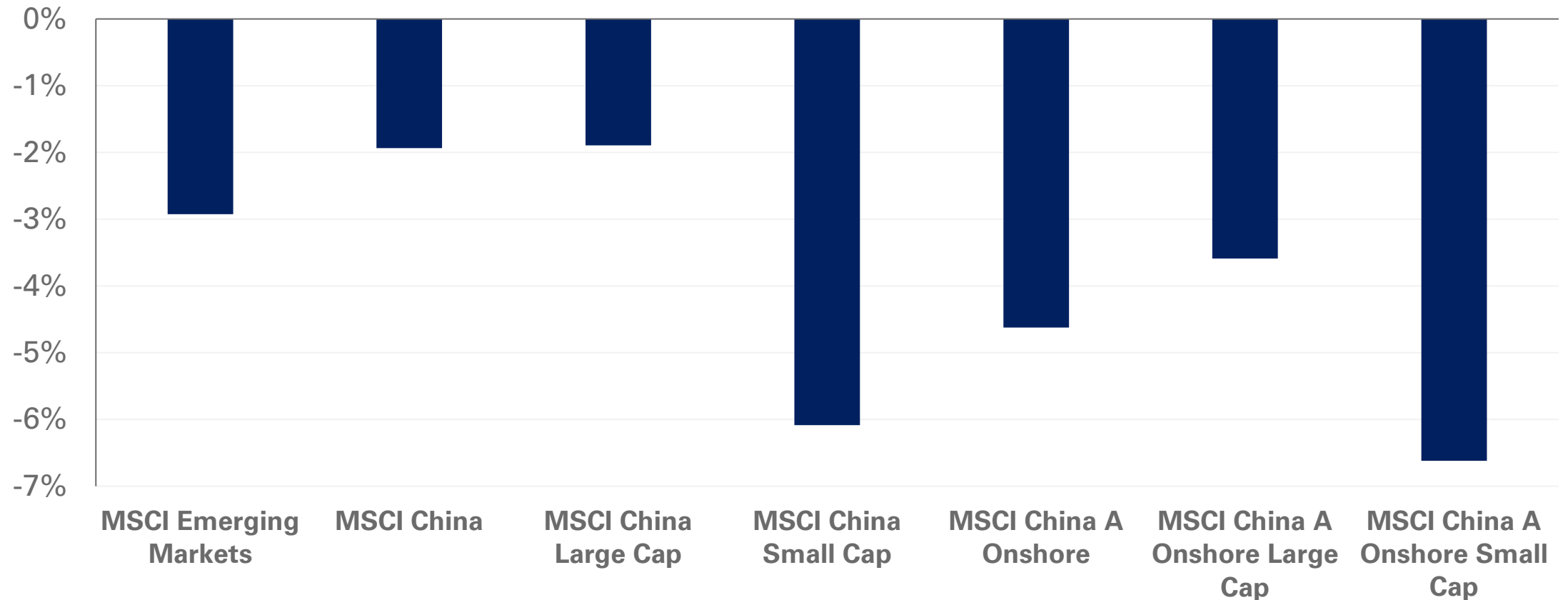
## TRAILING 250-DAY RETURN OF S&P 500 VERSUS S&P EQUAL WEIGHT



Sources: S&P, FactSet, NEPC

# CHINESE MARKET SENTIMENT REMAINS NEGATIVE

## QUARTERLY TOTAL RETURNS



# THE U.S. DOLLAR RALLIED OFF 12-MONTH LOWS

DXY: THE U.S. DOLLAR INDEX



Source: FactSet

# THE CHINESE YUAN FURTHER DEPRECIATED

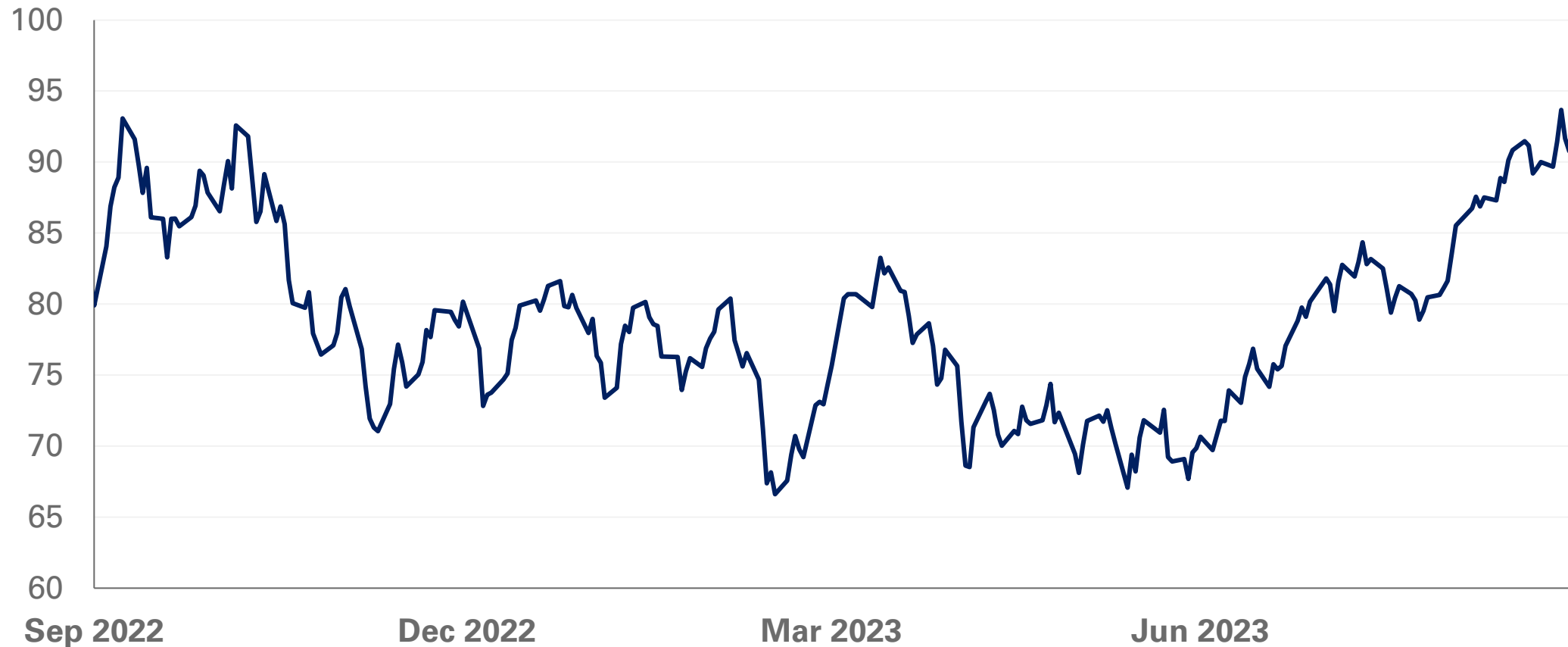
## CHINESE YUAN PER U.S. DOLLAR



The Chinese yuan has depreciated to its lowest level since it reintroduced its currency peg to the U.S. Dollar in 2008

# OIL PRICES ROSE SIGNIFICANTLY

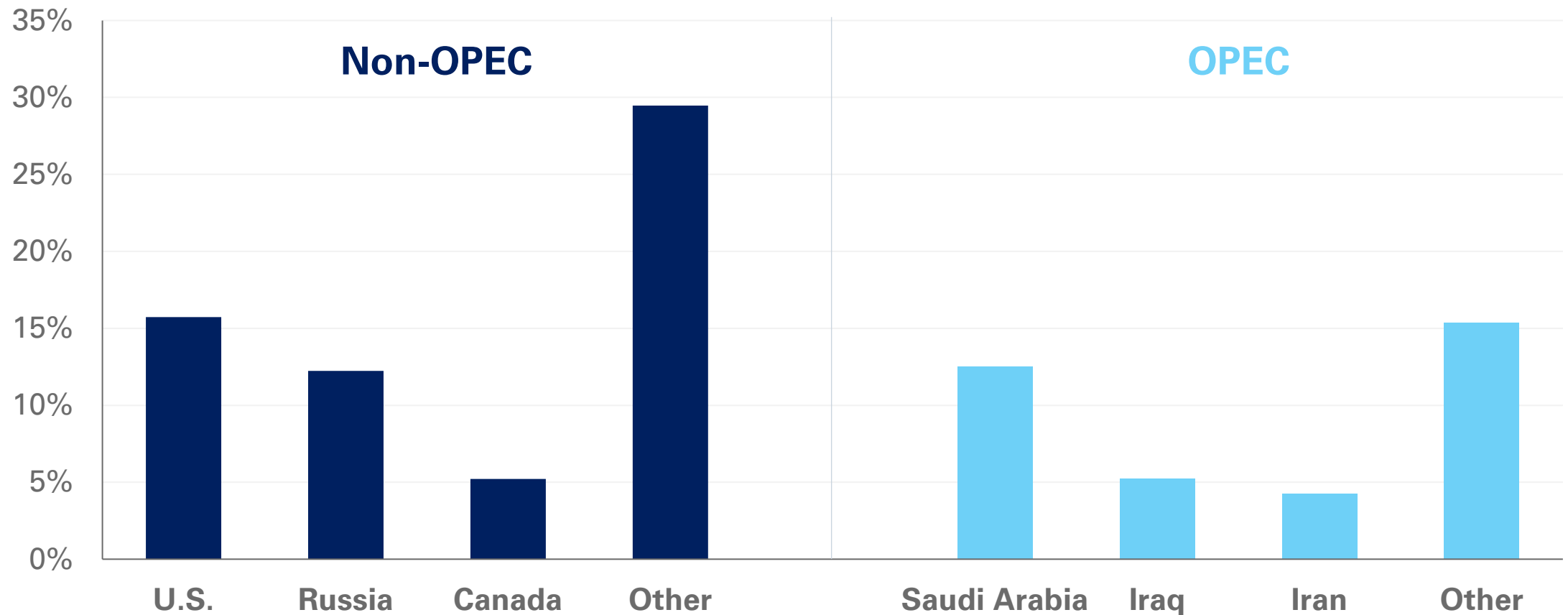
## WTI CRUDE OIL SPOT PRICE



Source: FactSet

# GLOBAL OIL SUPPLIES SENSITIVE TO GEOPOLITICS

## GLOBAL CRUDE OIL PRODUCTION





# THE (DOT) PLOT THICKENS:

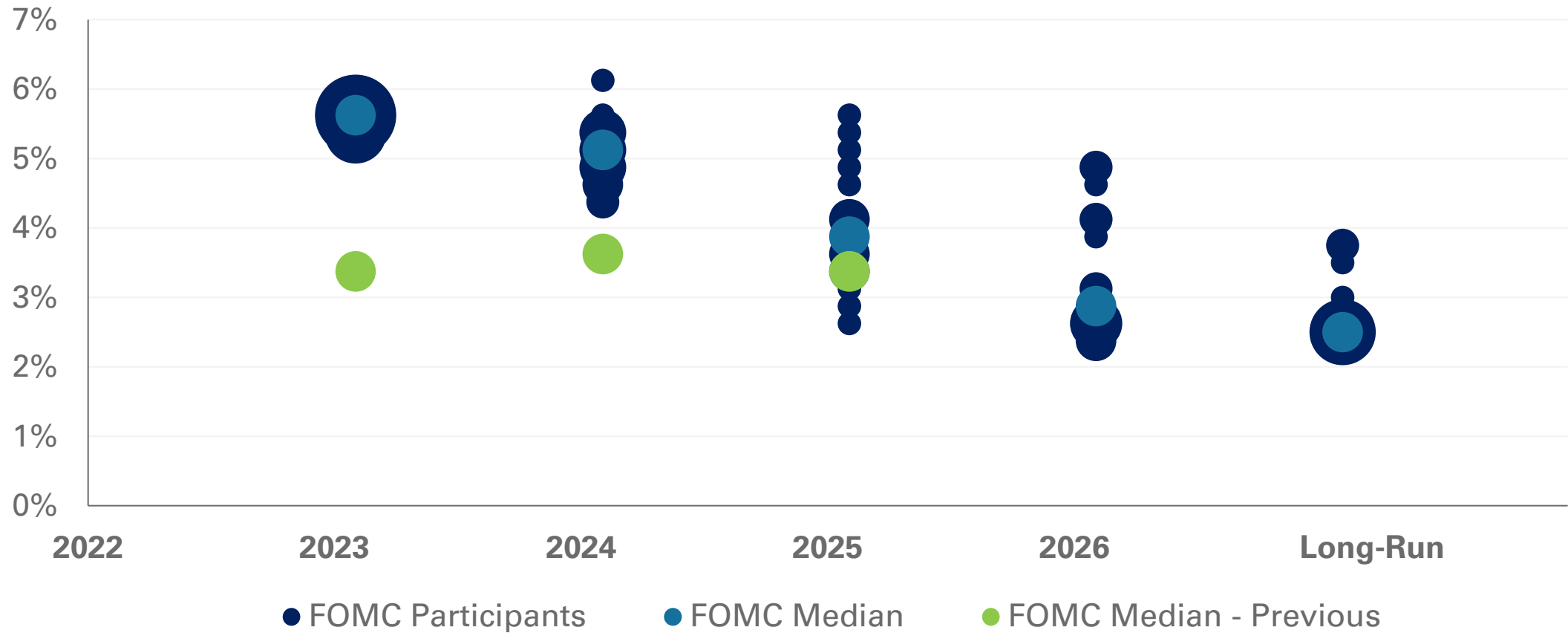
The “Long and Variable”  
Lag





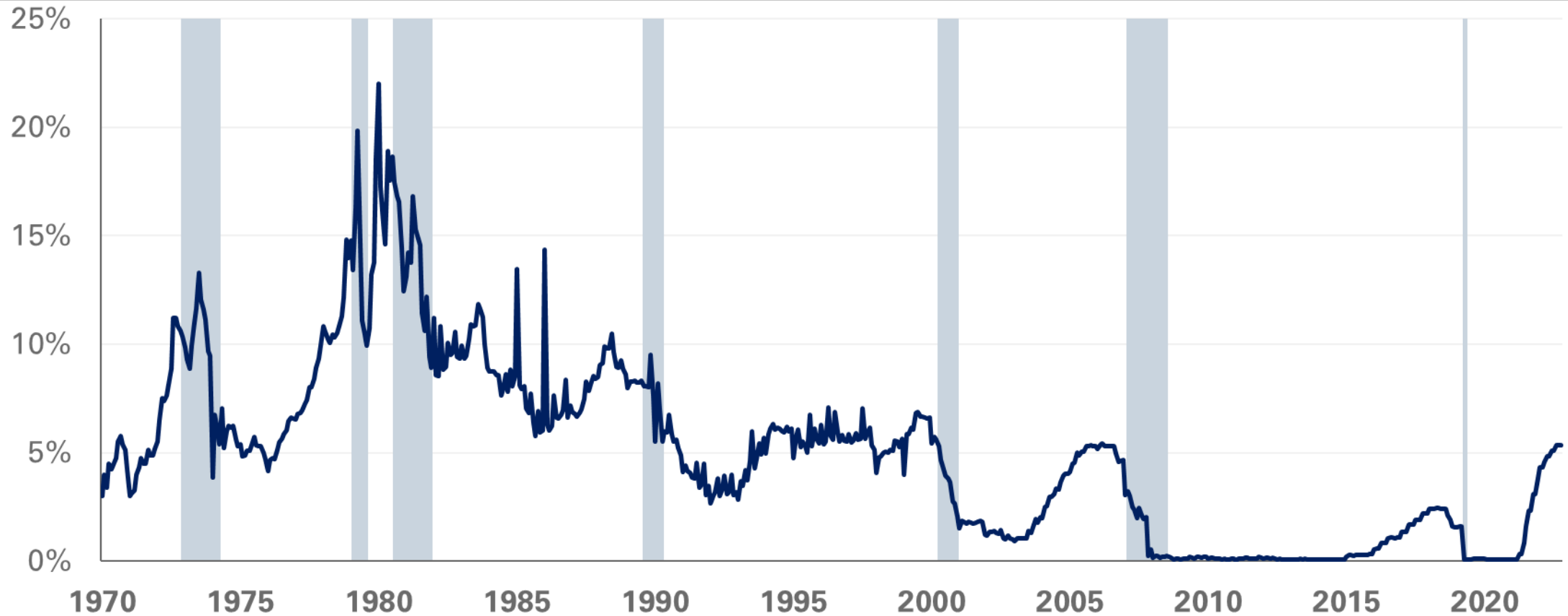
# THE (DOT) PLOT HAS THICKENED

## FED DOT PLOT



# UNDERSTANDING THE “LONG AND VARIABLE LAG”

## FED FUNDS EFFECTIVE RATE

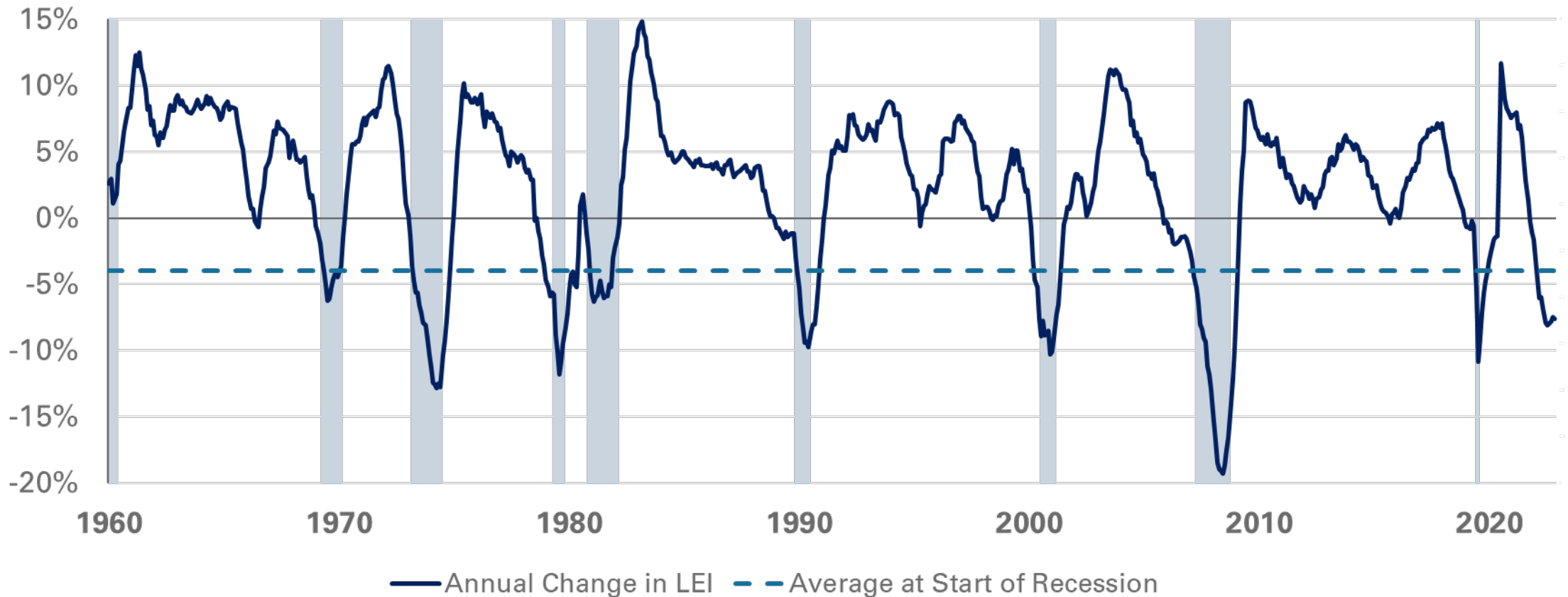


Notes: Shaded regions reflect recessions as defined by the NBER  
Sources: Federal Reserve, National Bureau of Economic Research, FactSet



# LEADING INDICATORS POINT TO A RECESSION

## U.S. LEADING ECONOMIC INDEX

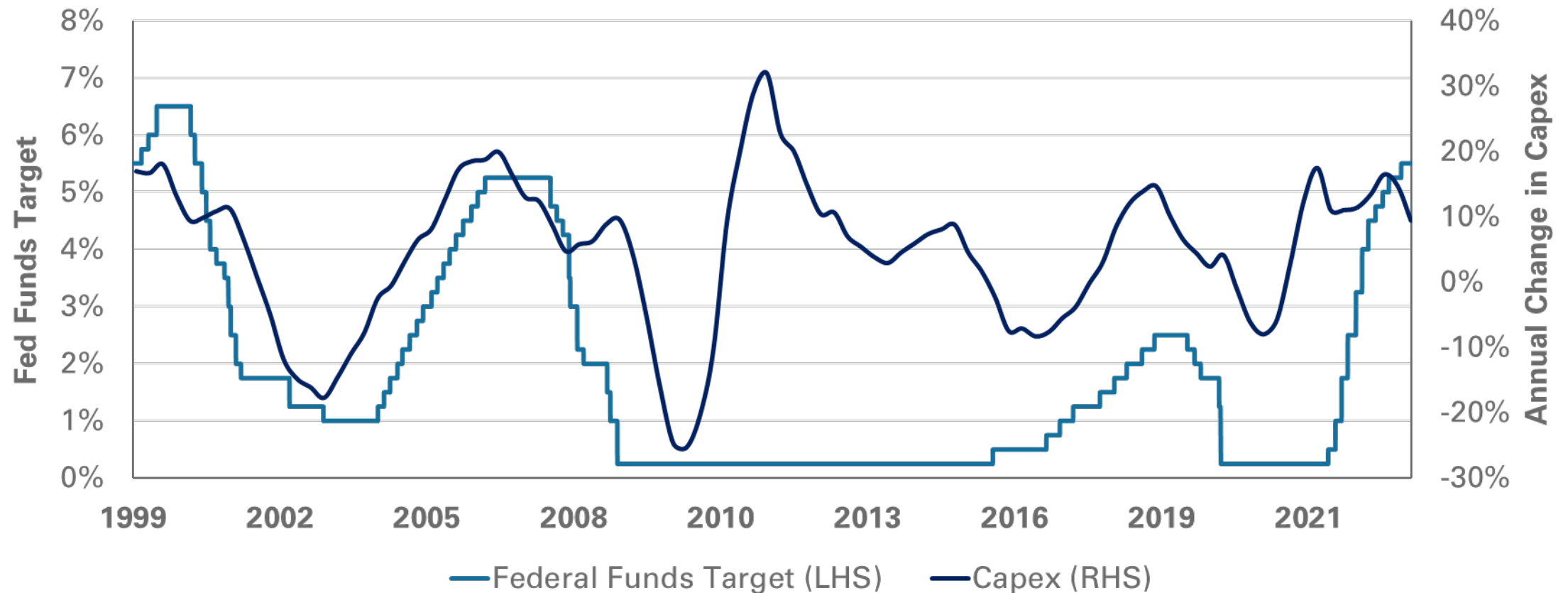


Notes: Shaded regions reflect recessions as defined by the NBER  
Sources: Conference Board U.S., FactSet



# RISING RATES INFLUENCE THE CAPEX CYCLE

## FED FUNDS RATE VERSUS ANNUAL CHANGE IN S&P CAPEX



Sources: Federal Reserve, S&P, FactSet

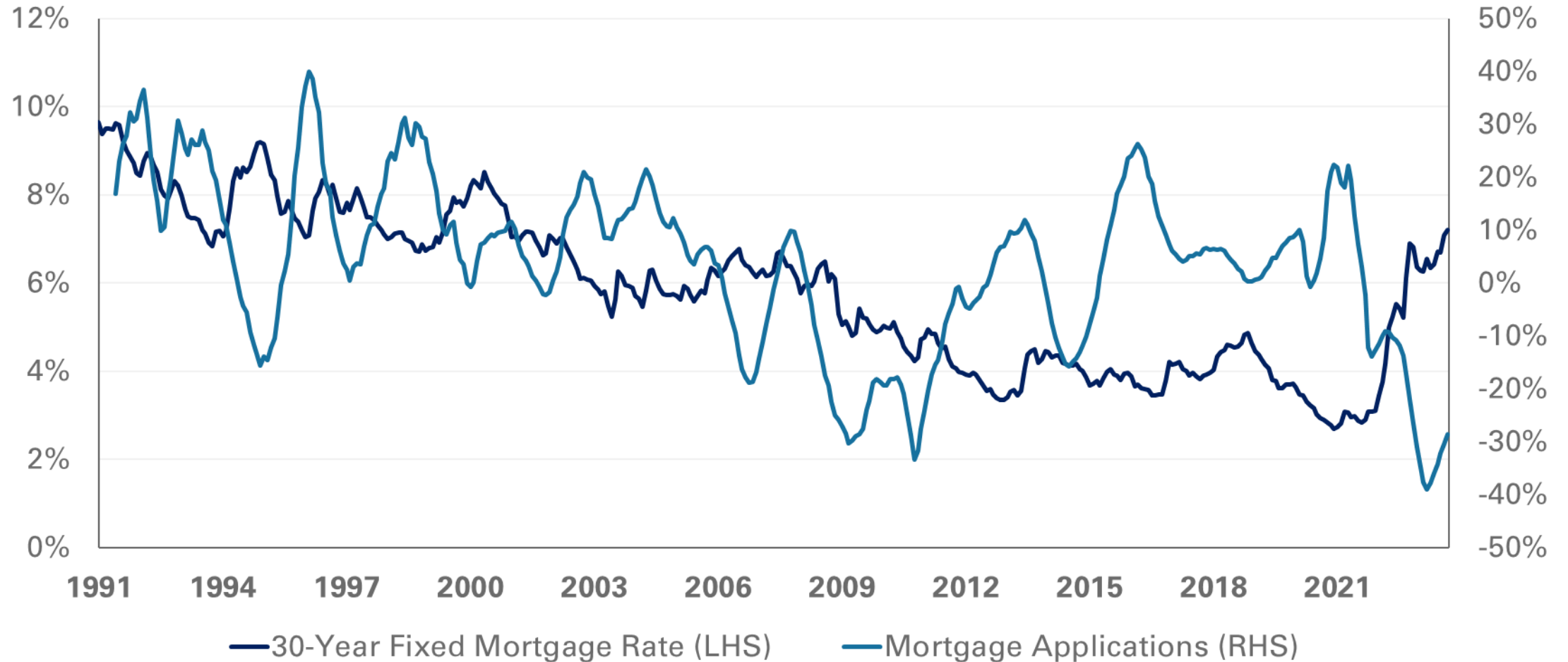
# RISING INTEREST COSTS TO PRESSURE BUSINESSES

## RATE PAID ON SHORT-TERM LOANS BY SMALL BUSINESSES



Sources: National Federation of Independent Businesses, FactSet

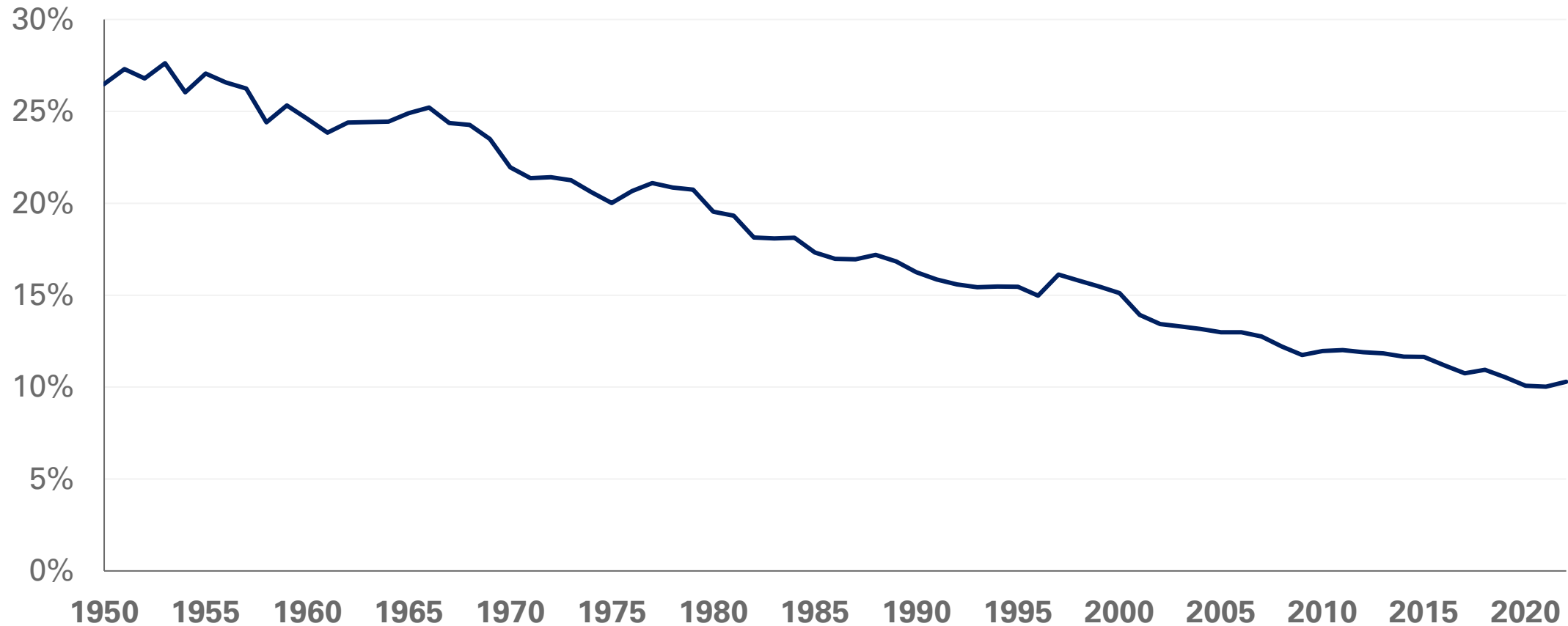
# INTEREST RATES WEIGH ON MORTGAGE VOLUMES



Notes: Mortgage applications data series reflects a six-month moving average of annual changes in application volumes  
Sources: Freddie Mac, FactSet

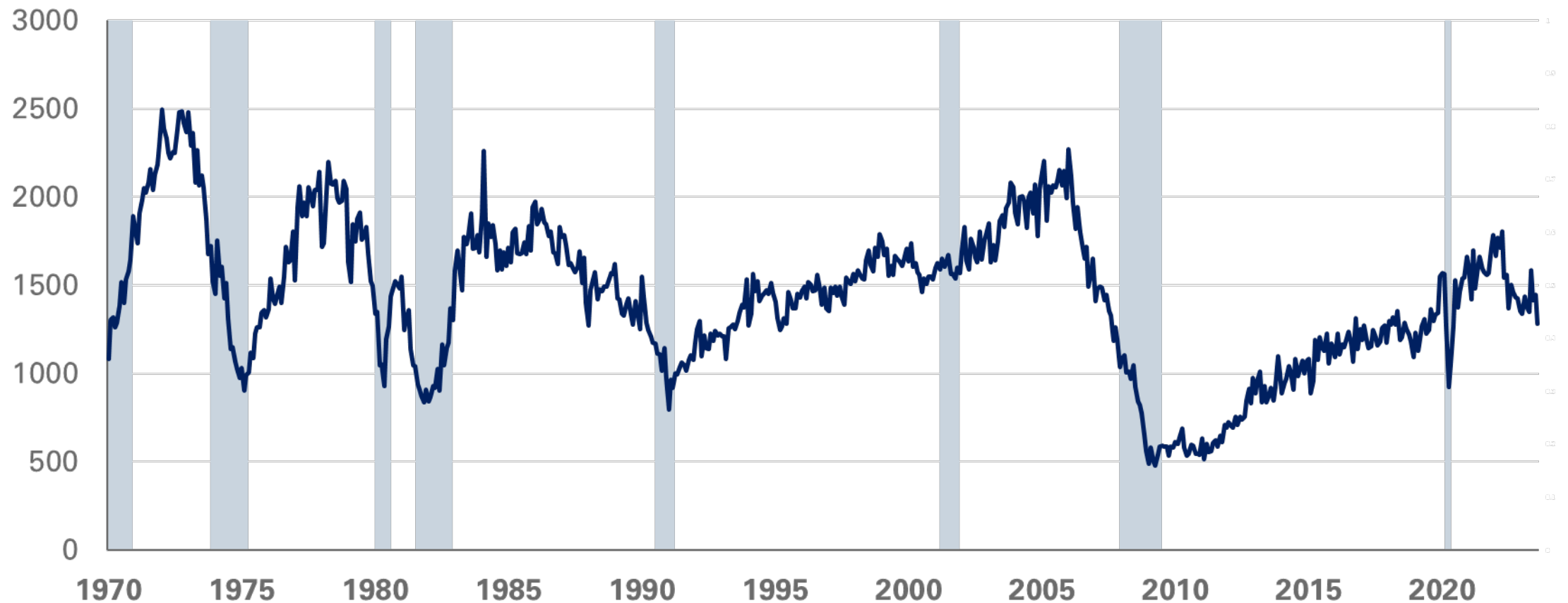
# THE COMPOSITION OF THE ECONOMY HAS CHANGED

## MANUFACTURING AS A PERCENTAGE OF NOMINAL GDP



# THE HOUSING MARKET CONUNDRUM

## U.S. HOUSING STARTS





# THE LABOR MARKET REMAINS TIGHT VERSUS HISTORY

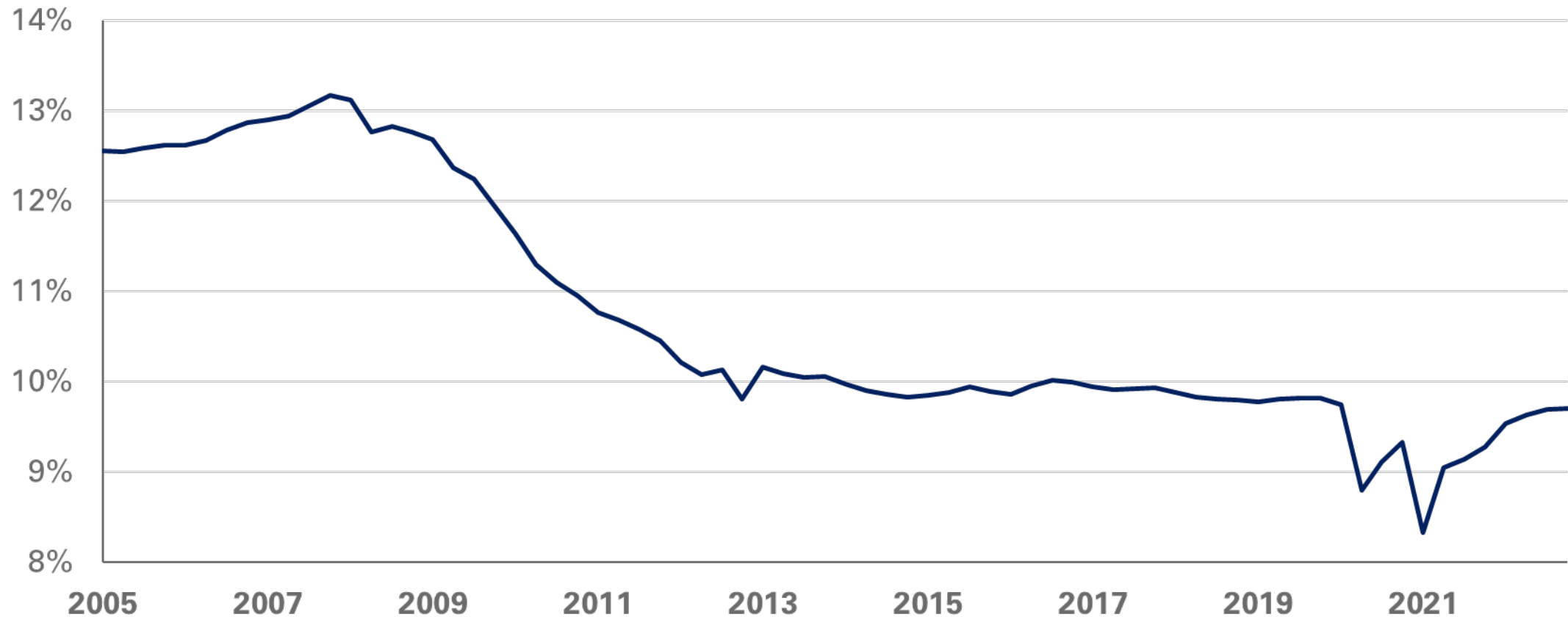
## UNEMPLOYMENT INSURANCE CLAIMS AS % OF LABOR FORCE



Notes: Chart truncated at 0.8%. Reading for 04/03/2020 was 3.93%. Shaded regions reflect recessions as defined by the NBER.  
Sources: Department of Labor, NBER, FactSet

# CONSUMER BALANCE SHEETS ARE HEALTHY

## U.S. HOUSEHOLD DEBT SERVICE TO DISPOSABLE INCOME



# CONCLUDING THOUGHTS



The realization of "higher-for-longer" interest rates will continue to test the U.S. economy through 2024



The monetary policy lag is likely *longer* and *more variable* today given the services-orientation of the economy



The economy has been resilient in the face of higher rates; we do not foresee a recession in 2024 amid this backdrop



# PORTFOLIO POSITIONING



# PORTFOLIO POSITIONING VIEWS

Look to **reduce S&P 500 and U.S. mega-cap exposure in favor of high yield credit**, while maintaining U.S. value positions

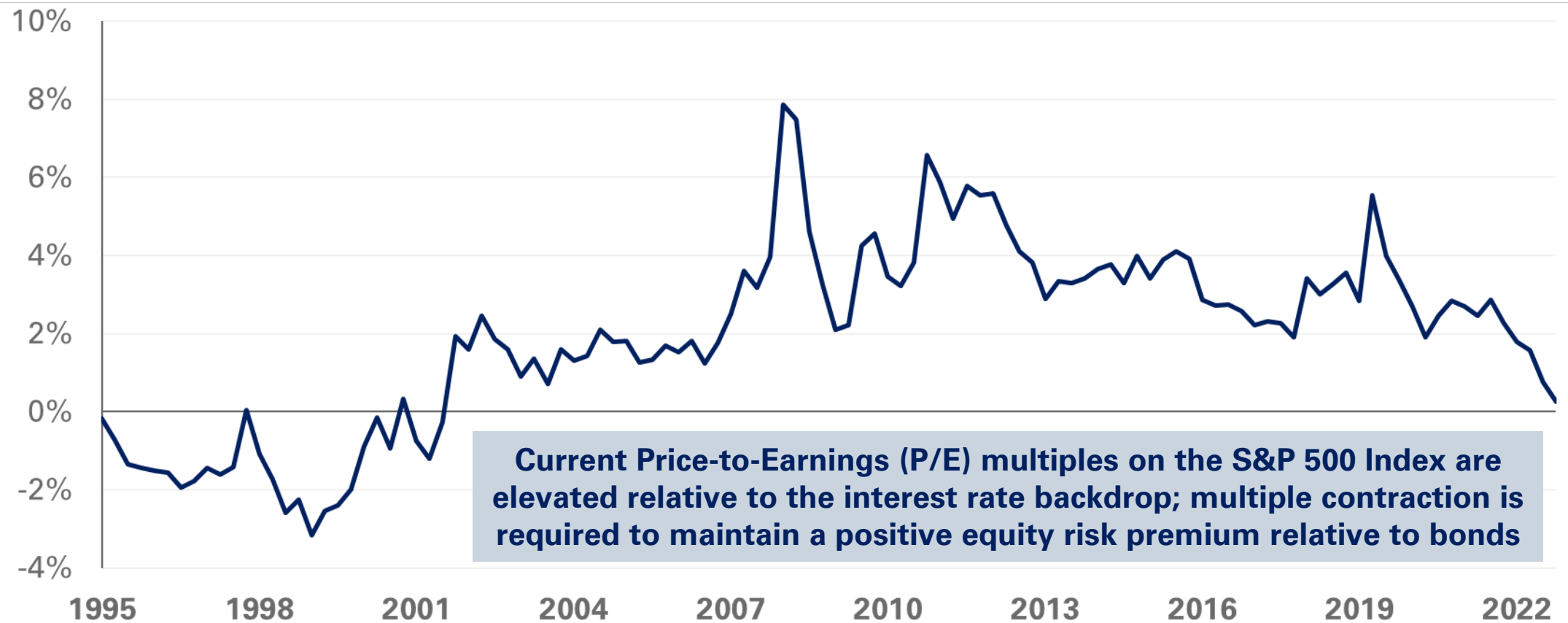
We suggest **tilting equity implementation to global equity strategies** and encourage greater usage of active equity approaches

With the **normalization of real interest rates**, we recommend introducing dedicated U.S. TIPS exposure to strategic policy targets

We encourage **maintaining portfolio-level duration in-line with policy targets** and we remain comfortable holding greater levels of cash in the portfolio

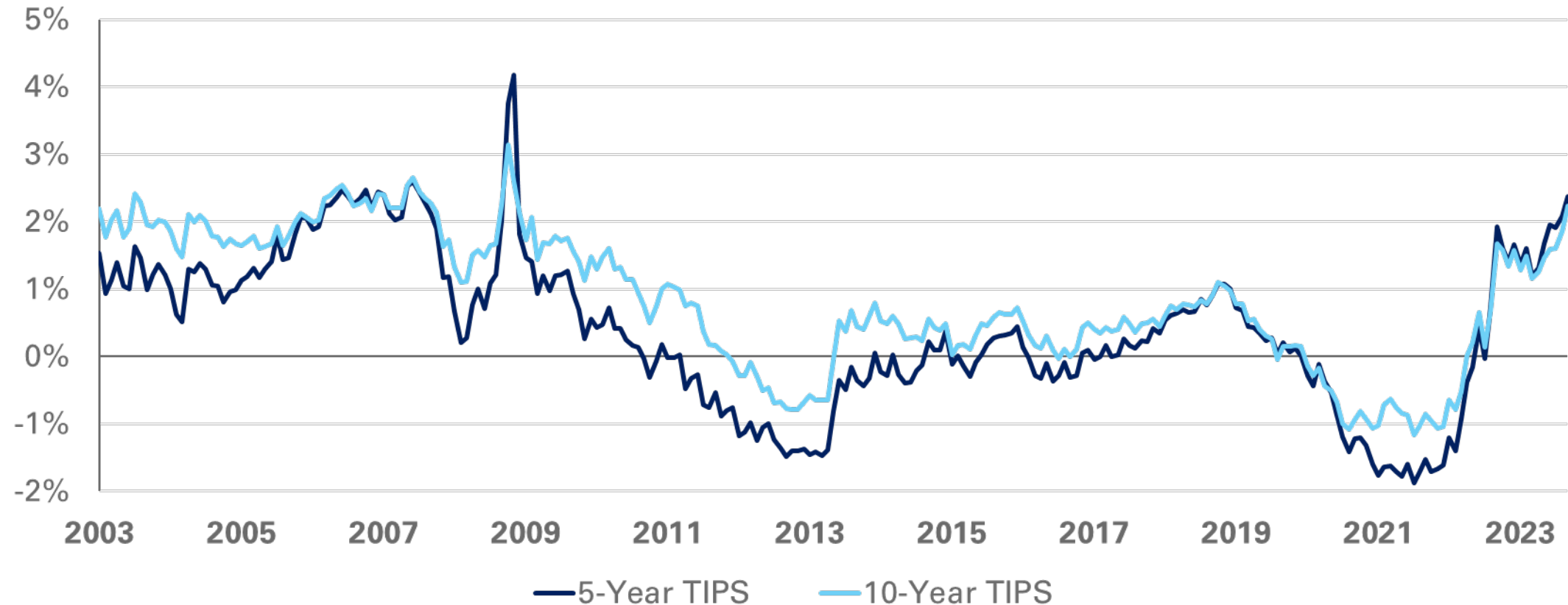
# S&P VALUATIONS ARE SLOWLY ADJUSTING

S&P 500 LTM EARNINGS YIELD – 10Y U.S. TREASURY YIELDS



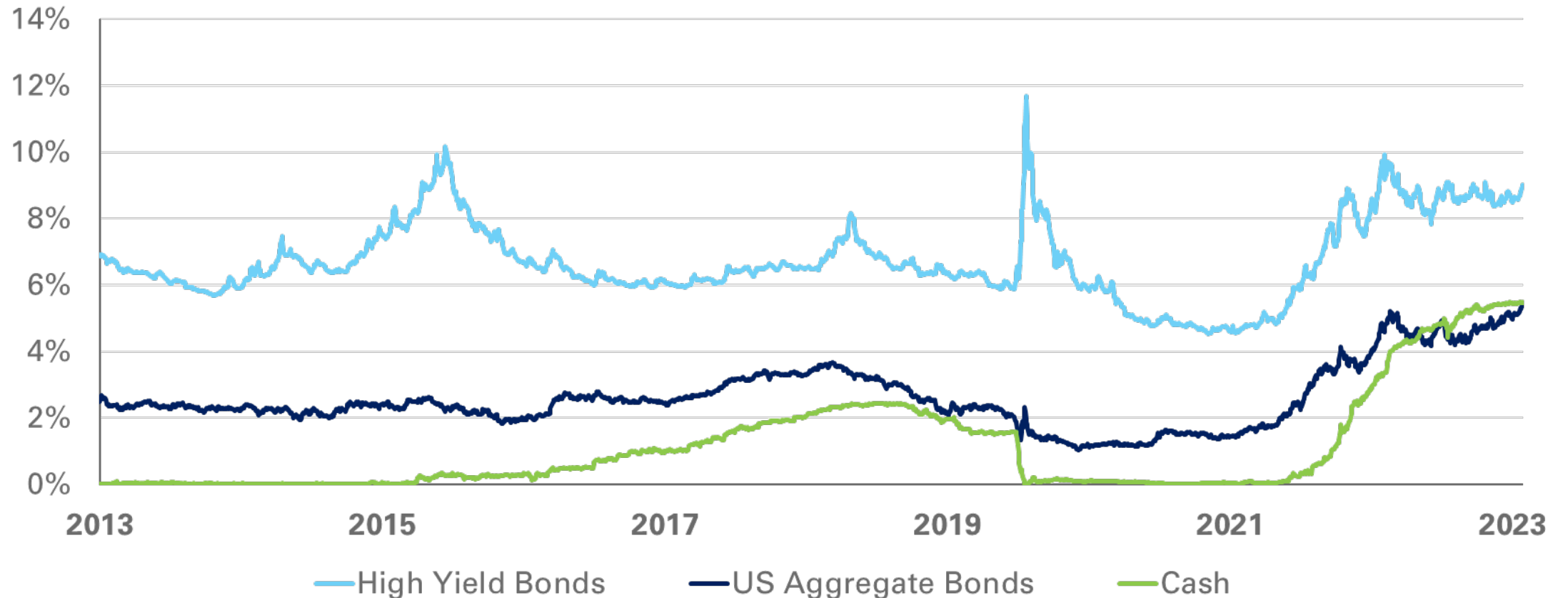
# TIPS ARE ATTRACTIVE IN THIS ENVIRONMENT

## 5-YEAR AND 10-YEAR U.S. TIPS REAL YIELD



# U.S. HIGH YIELD STILL OFFERS A CARRY BENEFIT

## MARKET YIELD COMPARISON



Sources: Bloomberg, S&P, FactSet



**QUESTIONS?**



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**THANK YOU**

