

NEPC MARKET OUTLOOK

WHERE IS THE VALUE IN EQUITIES?

APRIL 18, 2024

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Nedelina (Nina) Petkova



TODAY'S PRESENTERS



**Jennifer
Appel, CFA**

Senior Investment
Director, Asset
Allocation

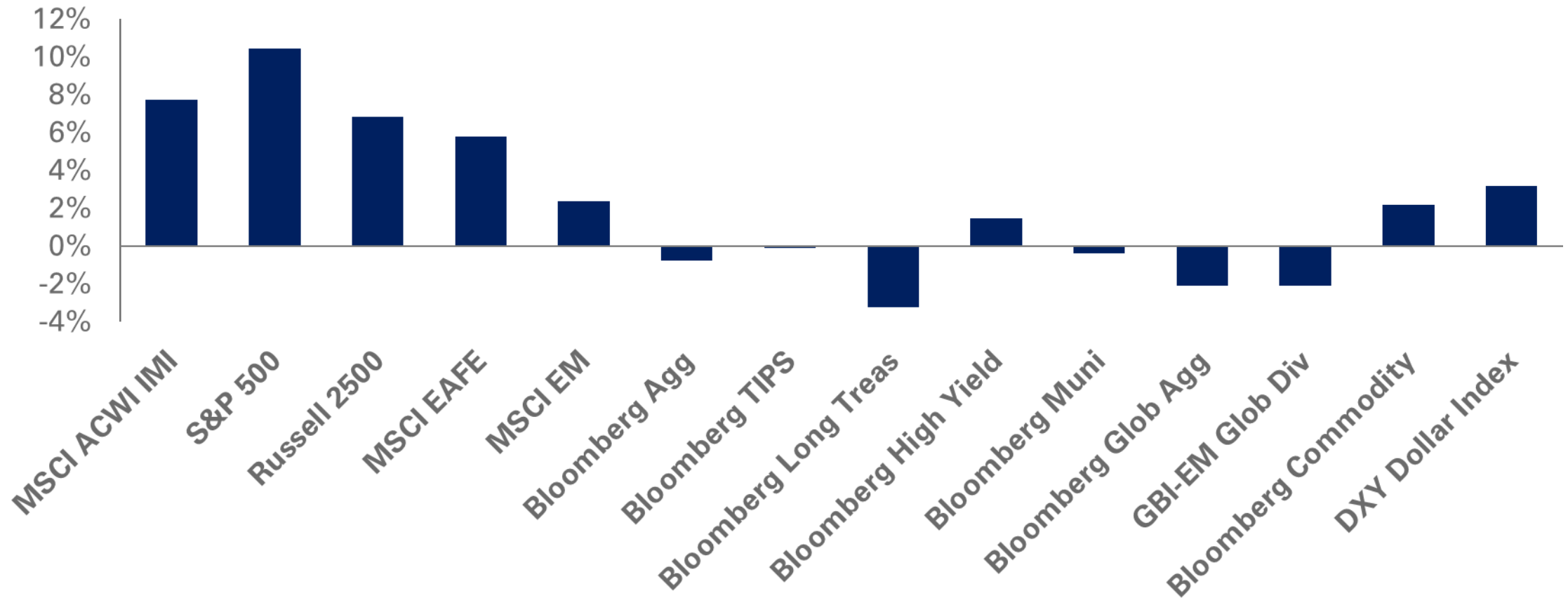


**Nedelina (Nina)
Petkova**

Senior Investment
Director, Marketable
Equities

EQUITY MARKETS POSTED OUTSIZED RETURNS

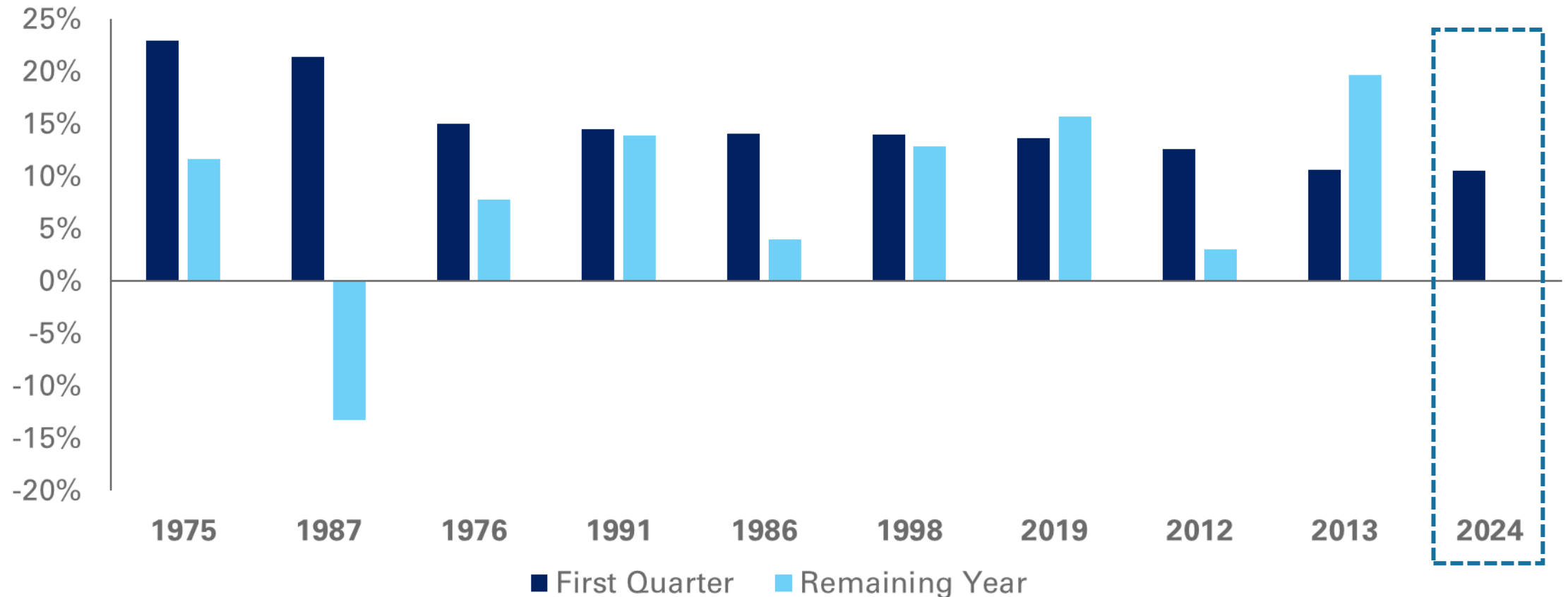
QUARTERLY TOTAL RETURNS



Note: Returns calculated 12/31/2023-3/31/2024
Sources: MSCI, S&P, Russell, Bloomberg, JP Morgan, FactSet

STRONG START TO THE YEAR FOR THE S&P 500

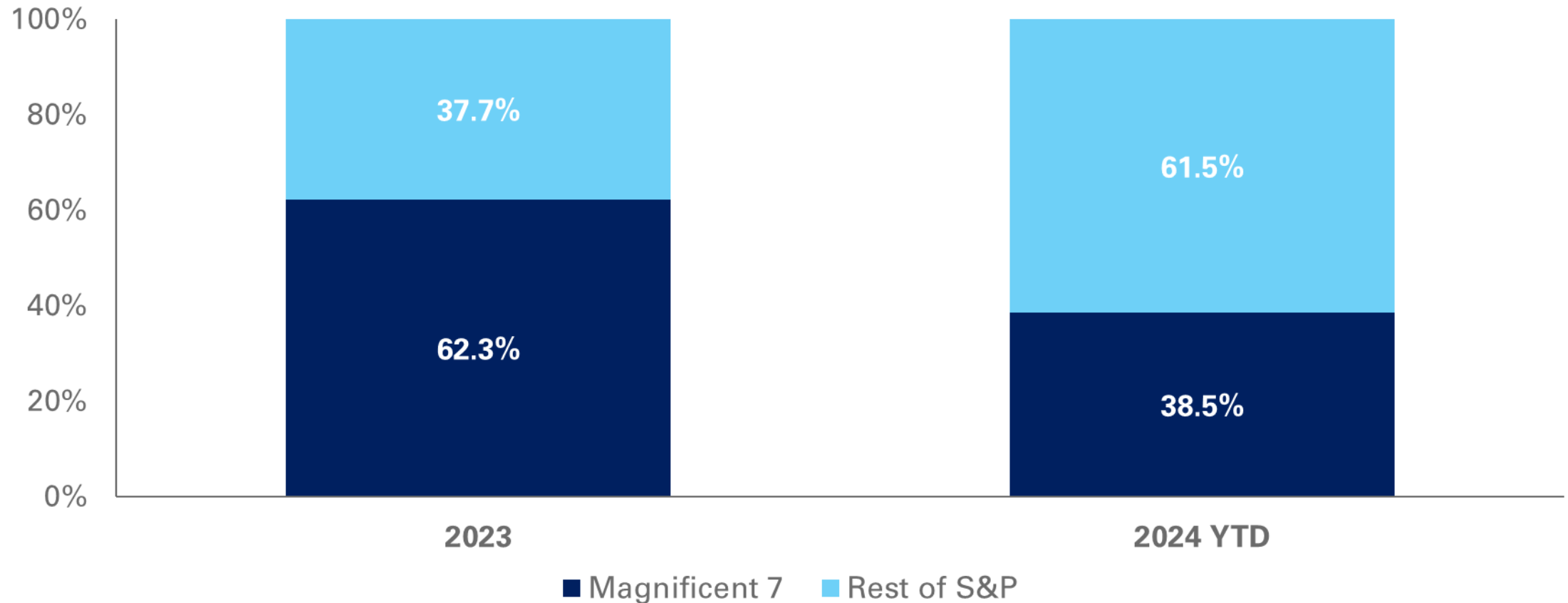
BEST FIRST QUARTER TOTAL RETURNS: S&P 500



Calculated from 1/1/1970 – 3/31/2024
Sources: S&P, FactSet

THE S&P RALLY EXPANDED BEYOND THE MAG-7

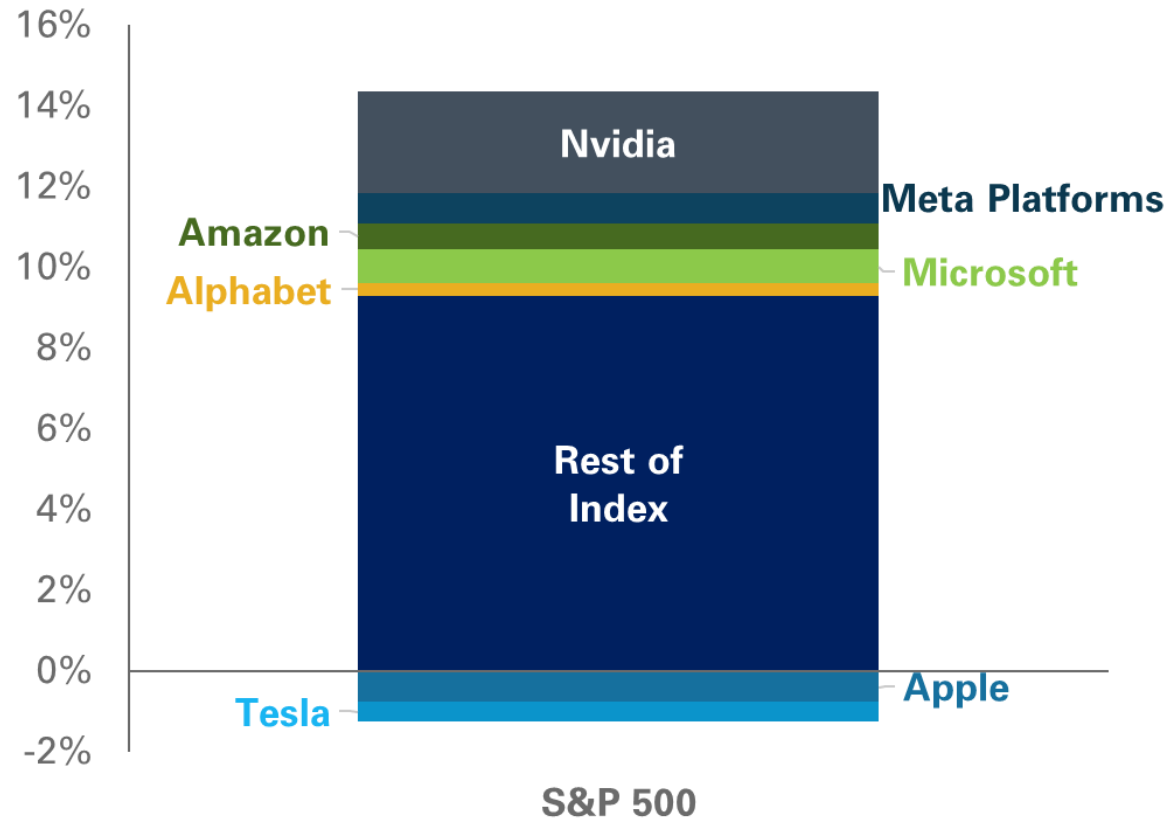
CONTRIBUTION TO S&P 500 RETURNS



Sources: S&P, FactSet

TOP NAMES STILL INFLUENCING PERFORMANCE

CONTRIBUTION TO S&P 500 QUARTERLY TOTAL RETURNS



QUARTERLY PERFORMANCE:

Nvidia +82.5%

Meta Platforms +37.3%

Amazon +18.7%

Microsoft +12.1%

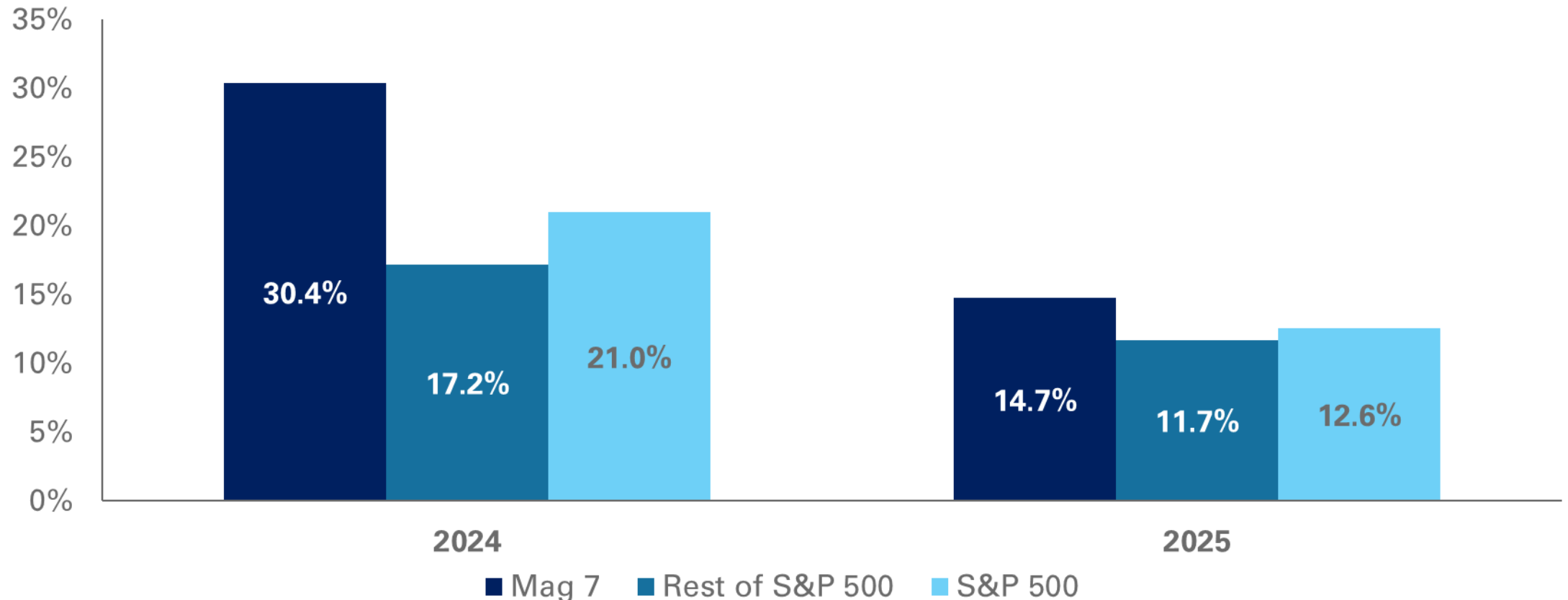
Alphabet +8.0%

Apple -10.8%

Tesla -29.3%

EARNINGS EXPECTATIONS ARE A HIGH HURDLE

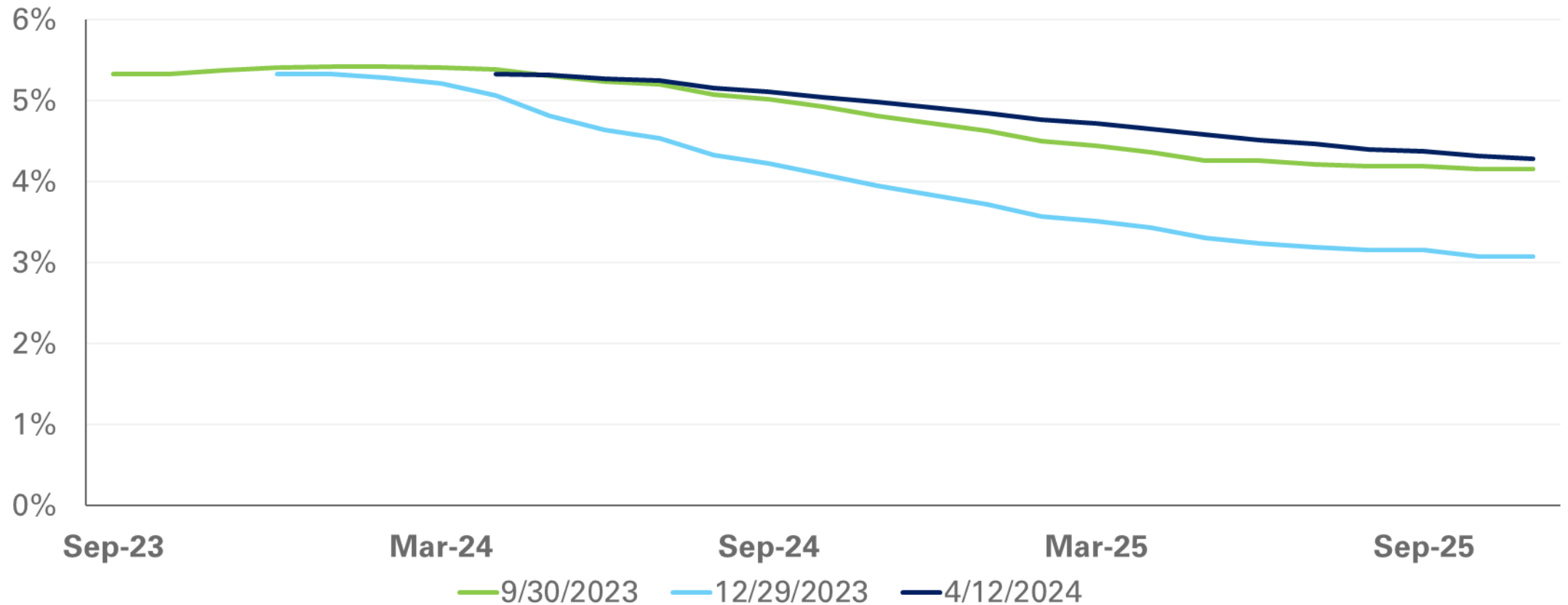
CALENDAR YEAR EARNINGS GROWTH FORECASTS



Earnings forecasts are based on analyst earnings estimates as of 3/31/2024; Mag 7 index weights as of 3/31/2024 held constant
Sources: S&P, FactSet

RETURNS DECOUPLED FROM RATE EXPECTATIONS

FED FUND FUTURES CURVE



Source: FactSet

U.S. INFLATION METRICS HAVE RE-ACCELERATED

MONTHLY CHANGES IN CPI-U BY CATEGORY



Sources: Department of Labor, FactSet

RESILIENT DATA PUSHED RATES HIGHER

QUARTERLY CHANGE IN U.S. TREASURY YIELD CURVE



Note: Chane calculated 12/31/2023-3/31/2024
Source: FactSet

ELEVATED RATES SUPPORT HIGH YIELD CARRY

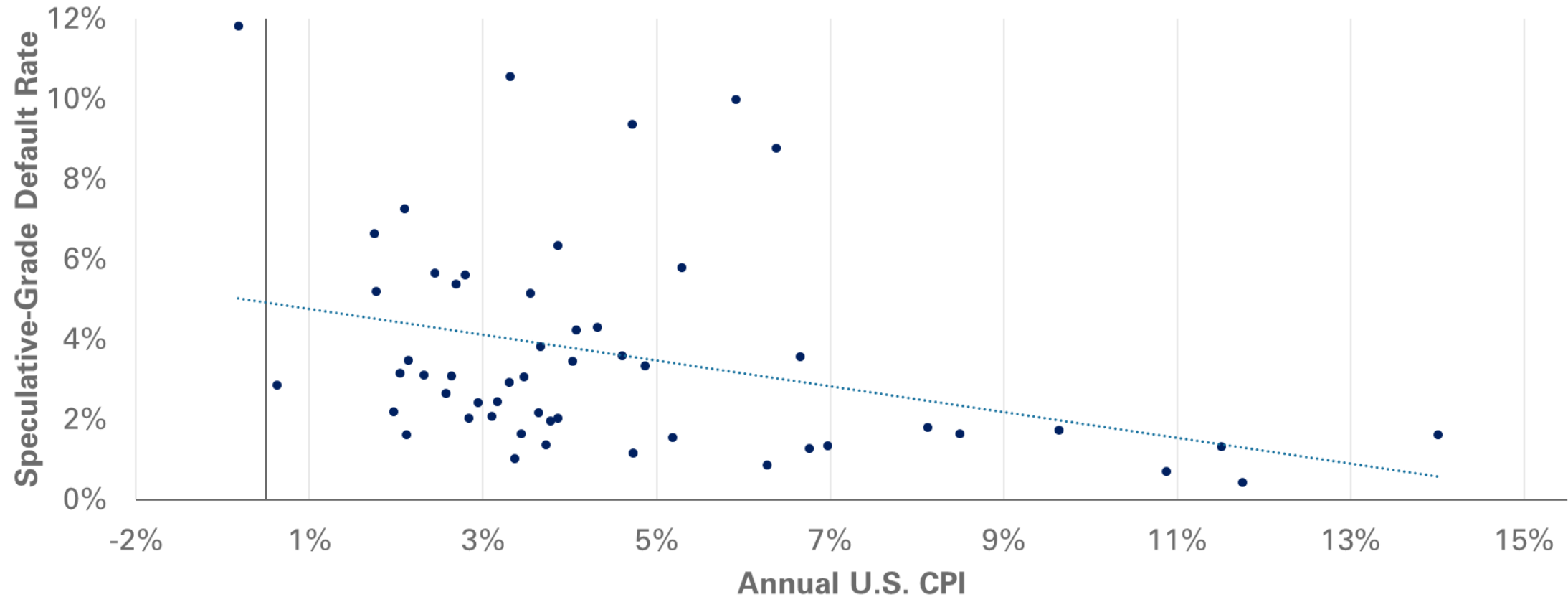
HIGH YIELD OPTION-ADJUSTED SPREAD AS % OF INDEX YIELD



Sources: Bloomberg, FactSet

HIGHER INFLATION DOES NOT IMPAIR CREDIT

DEFAULT RATES RELATIVE TO U.S. INFLATION



Sources: Moody's, Bureau of Labor Statistics, FactSet



MACRO SPOTLIGHT

Fed Ambitions at Odds
with the Economy



THE FED REMAINS BIASED TO POLICY EASING

“Most FOMC participants see it as likely to be appropriate to begin lowering the policy rate at some point this year.”

- Jerome Powell March 20, 2024

“The recent data do not materially change the overall picture, which continues to be one of solid growth, a strong but rebalancing labor market, and inflation moving down toward 2 percent on a sometimes-bumpy path.”

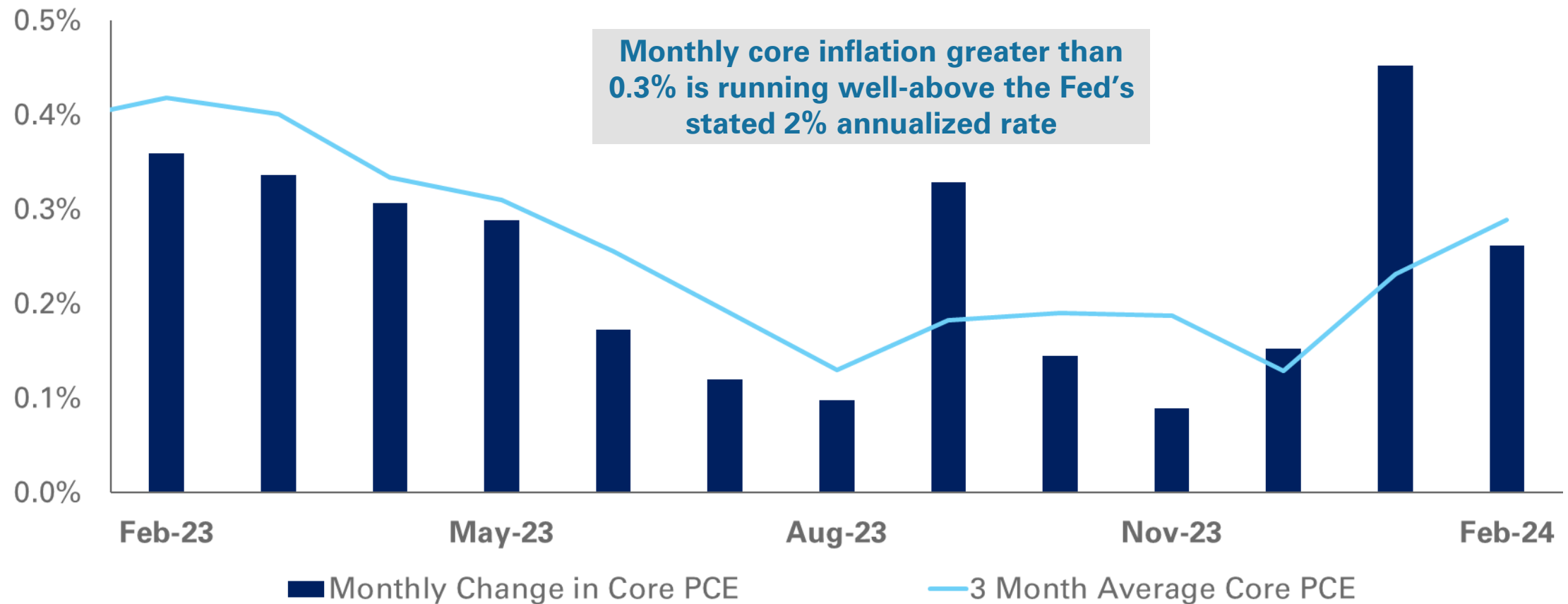
- Jerome Powell April 3, 2024

“If higher inflation does persist, we can maintain the current level of restriction for as long as needed. At the same time, we have significant space to ease...”

- Jerome Powell April 16, 2024

CORE INFLATION IS RUNNING ABOVE FED TARGET

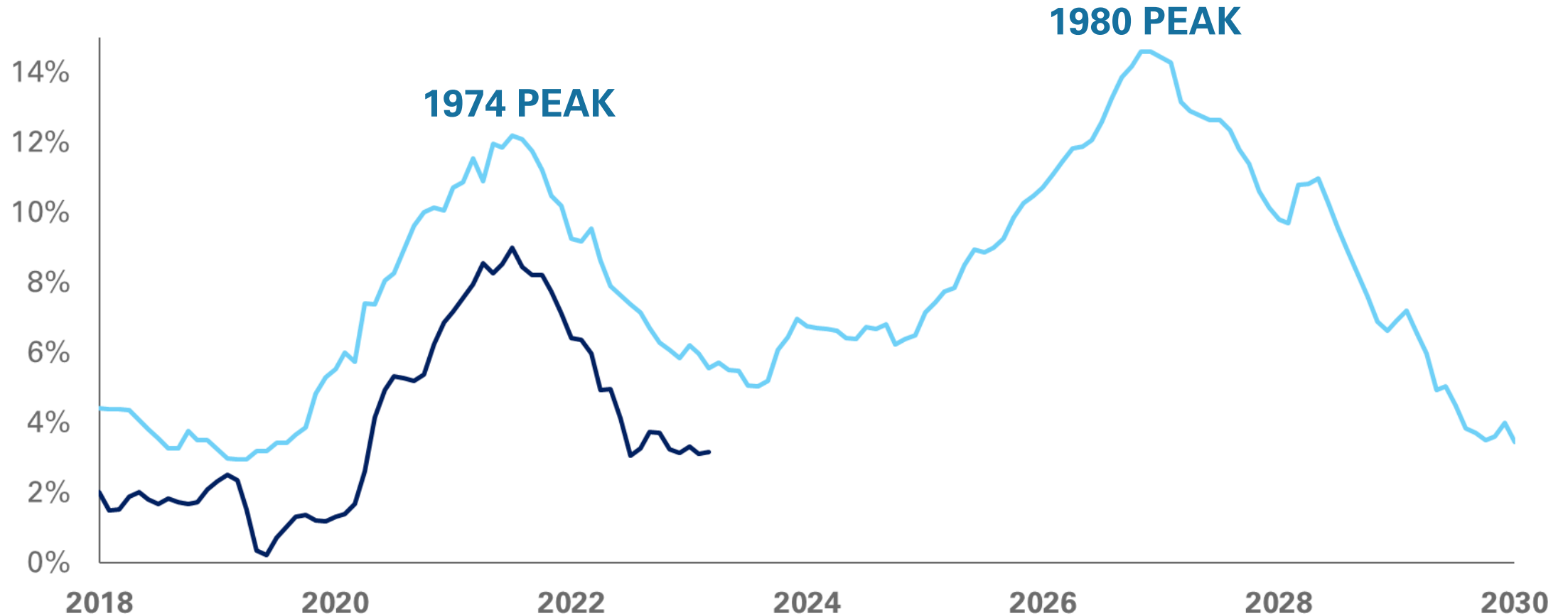
MONTHLY CHANGE IN CORE PCE (EX-FOOD AND ENERGY)



Sources: Department of Labor, FactSet

INFLATION OFTEN COMES IN WAVES

ANNUAL CHANGE IN U.S. CPI-U: 1970S VS. 2020S



Sources: U.S. Department of Labor, FactSet

INFLATION PRESSURES ARE BROADENING

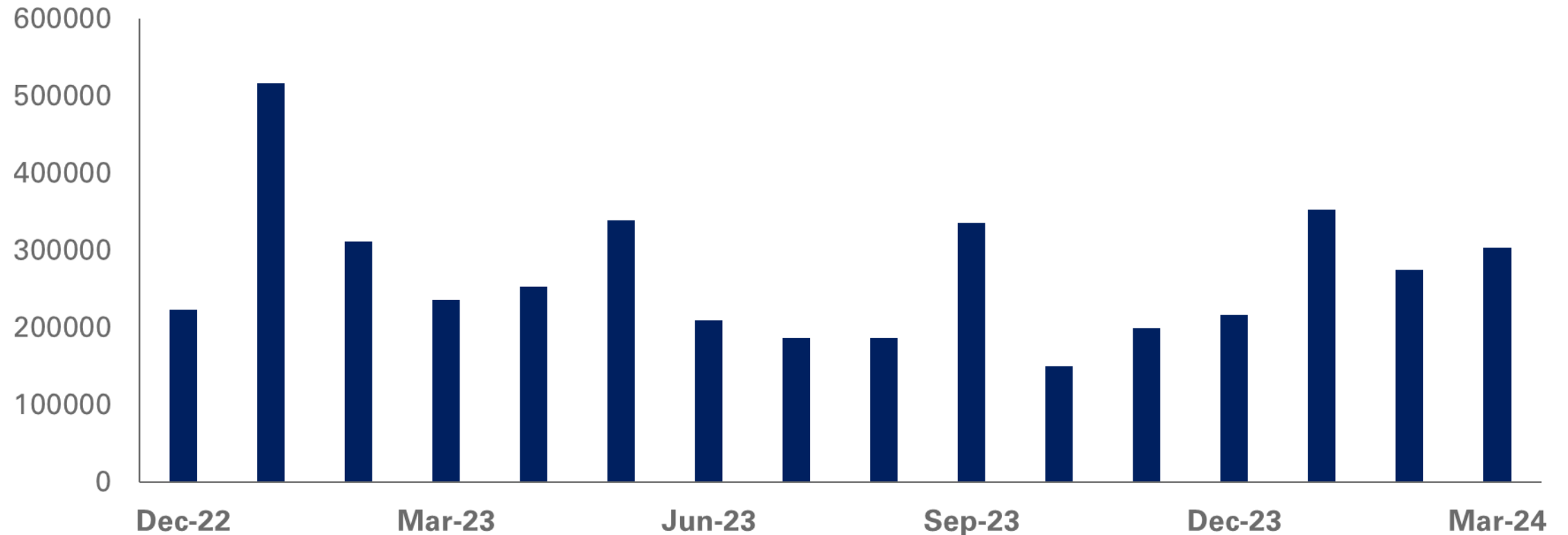
FLEXIBLE VERSUS STICKY INFLATION PRESSURES



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

LABOR MARKET DATA REMAINS ROBUST

MONTHLY CHANGE IN TOTAL NONFARM PAYROLLS



Sources: U.S. Department of Labor, FactSet

CONCLUDING THOUGHTS



▶ **The Fed's bias to lower rates is disconnected from current easy financial conditions and sticky inflation pressures**



▶ **We expect interest rates to remain "higher-for-longer" and do not foresee a recession in 2024**



▶ **The path for the economy hinges on the labor market; robust jobs data reinforces a "no recession" outcome**



▶ **Look to hold greater levels of portfolio liquidity as markets continue adapting to the new investment regime**

POSITIONING VIEWS



PORTFOLIO POSITIONING VIEWS

CURRENT OPPORTUNITIES

Global equity strategies remain a compelling opportunity and we **encourage greater use of active equity approaches**

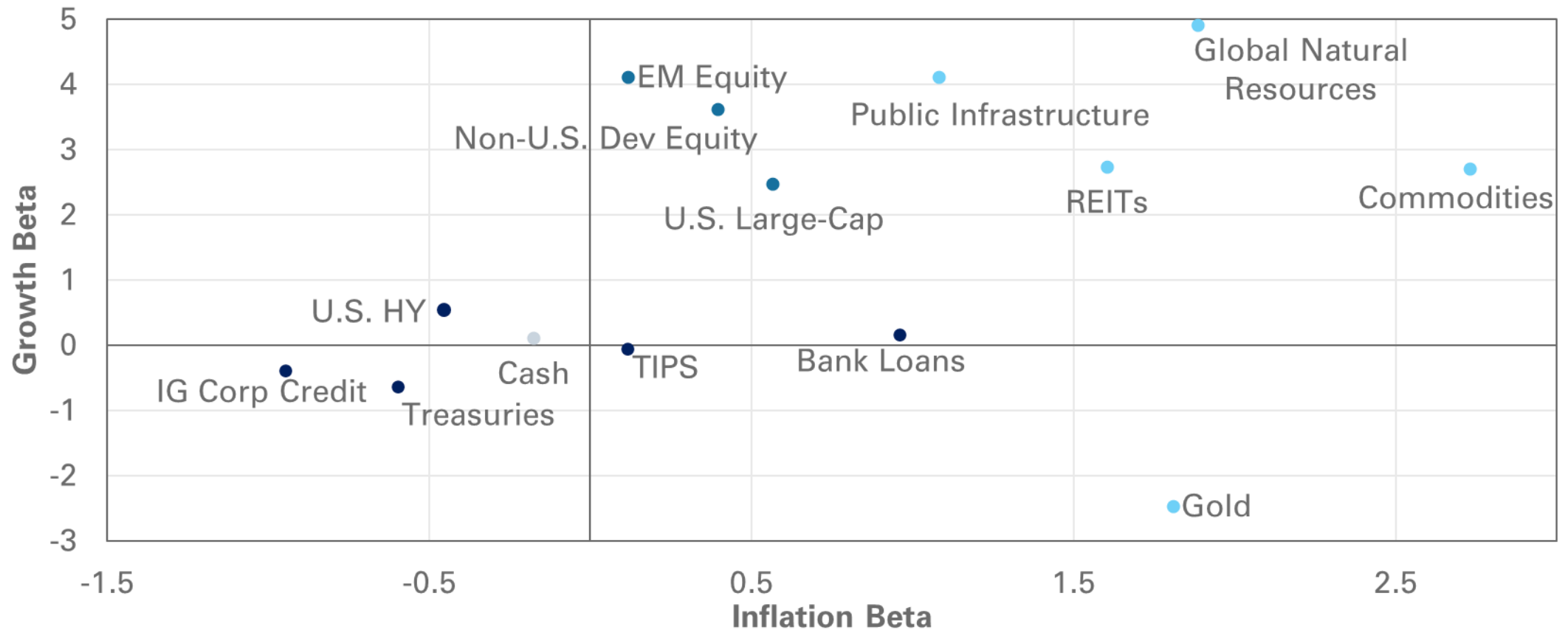
Be mindful of strategic equity targets, and we continue to advocate for the **use of value to complement U.S. large-cap exposure**

We see a **favorable environment for diversified real assets** exposure considering potential geopolitical events and upside inflation risks

We remain comfortable holding greater levels of cash and holding appropriate safe-haven fixed income exposure

DIVERSIFYING ASSETS CAN ALLAY INFLATION RISK

ASSET CLASS INFLATION AND GROWTH SENSITIVITIES



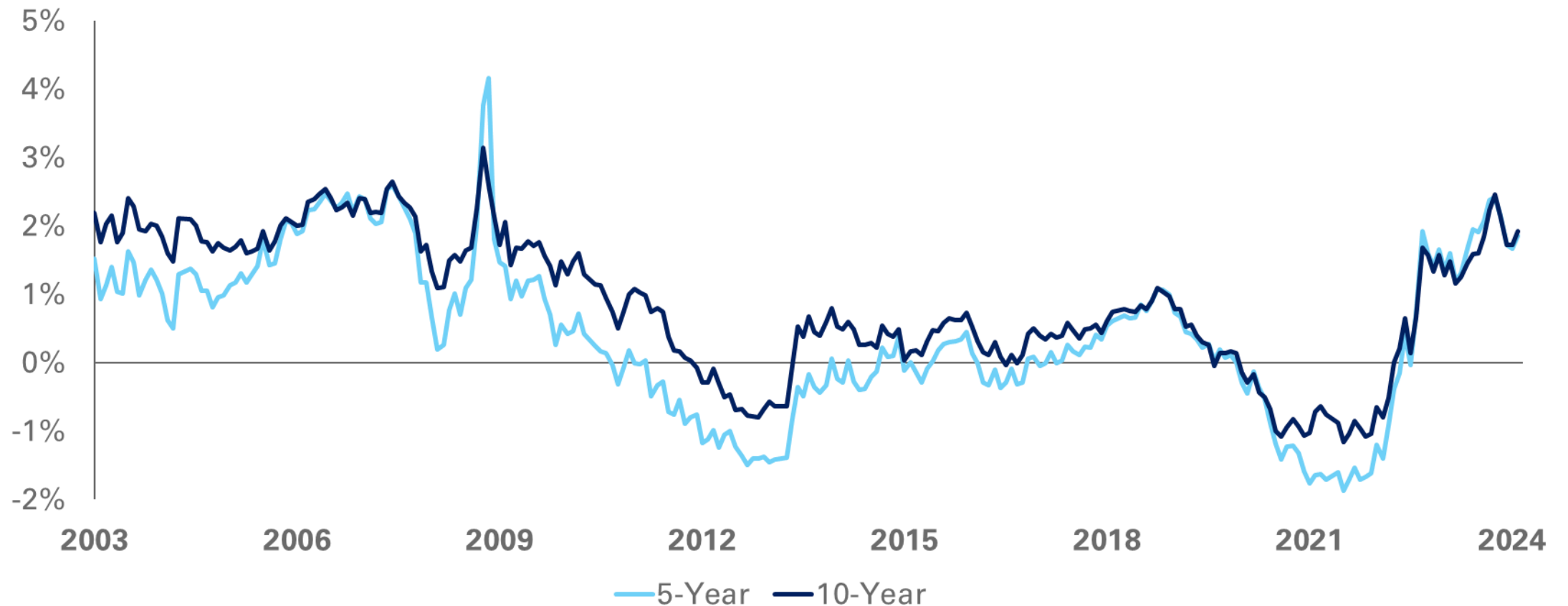
Notes: Growth and Inflation Beta calculations reflect sensitivity to trends in U.S. CPI-U and U.S. Real GDP growth since asset class inception date. EM Equity beta reflects sensitivity to a blend of 50% U.S. and 50% global metrics.

Sources: S*P, MSCI, Bloomberg, NAREIT, Bureau of Labor Statistics, FactSet



TIPS REAL YIELDS REMAIN ATTRACTIVE

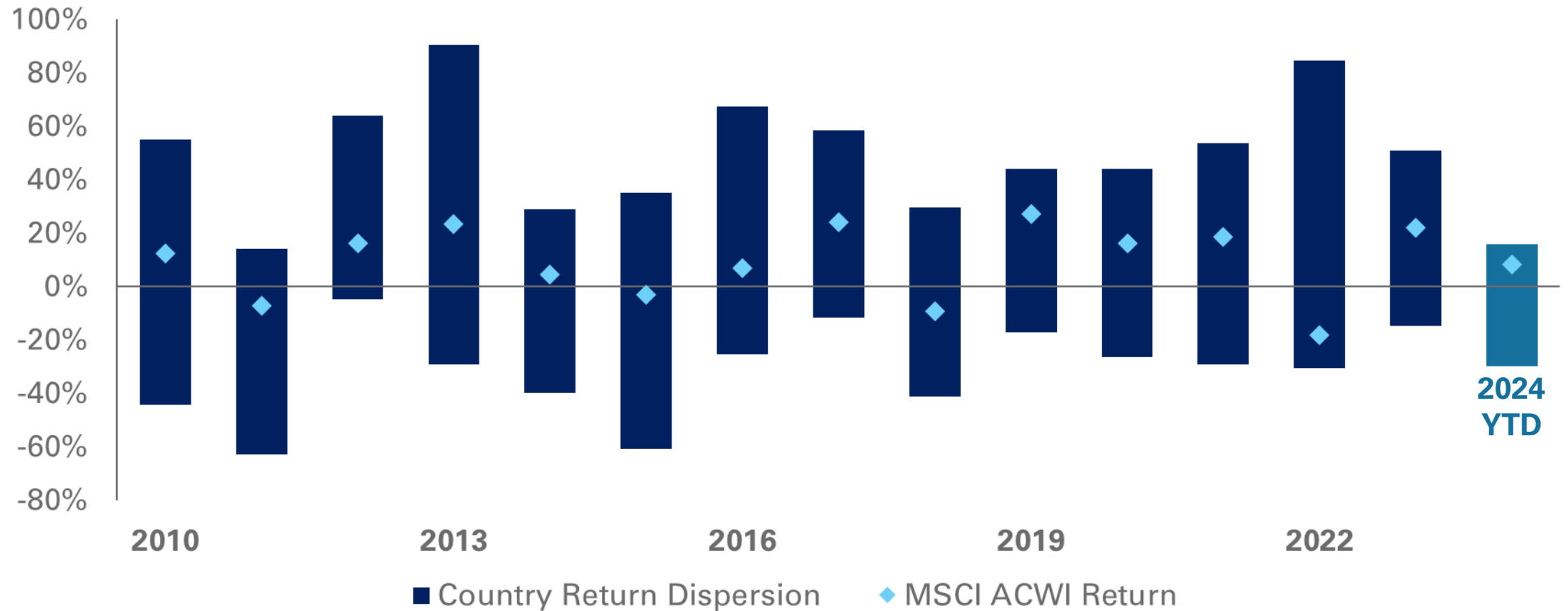
5-YEAR AND 10-YEAR U.S. TIPS REAL YIELDS



Source: FactSet

GLOBAL EQUITY HAS A FAVORABLE ALPHA PROFILE

ANNUAL MSCI ACWI RETURN DISPERSION



Sources: MSCI, FactSet

MARKETABLE EQUITY IMPLEMENTATION THOUGHTS

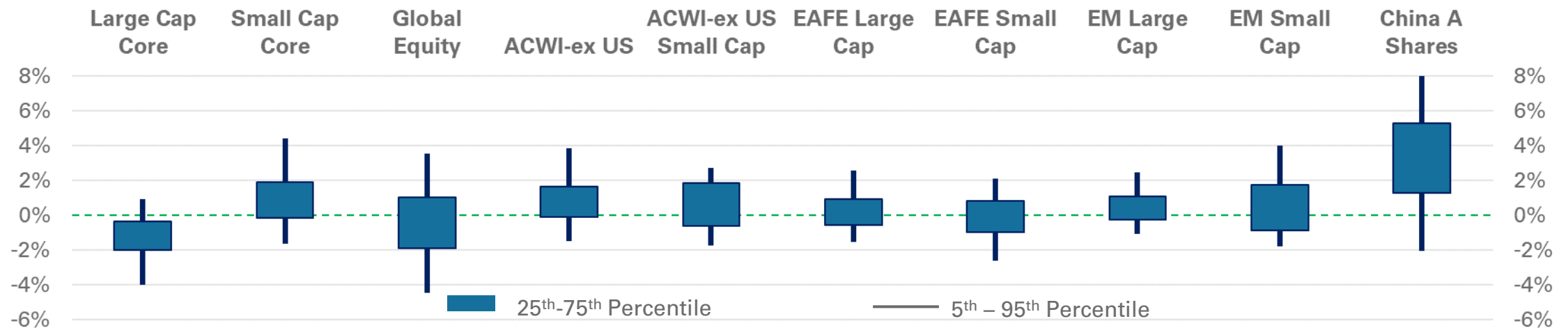


STRONG CASE FOR ACTIVE MANAGEMENT

ACTIVE VERSUS PASSIVE VIEWS

	Large Core	Small Core	Global Equity	ACWI ex US	ACWI ex US Small Cap	EAFE Large Cap	EAFE Small Cap	EM Large Cap	EM Small Cap	China A Shares
Test 1 (Dispersion)	Fail	Pass	Pass	Pass	Pass	Fail	Pass	Fail	Pass	Pass
Test 2 (Rolling Outperformance)	Fail	Pass	Pass	Pass	Pass	Pass	Pass	Pass	Pass	Pass
Efficient Passive Option	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

10 Year Excess Return – Net of Fees



Source: eVestment. Data as of 12/31/2023

CROSSING BORDERS

EXAMPLES

- **Founded in 1978 by Ben Cohen and Jerry Greenfield in VT**
- **Acquired by Unilever (based in Netherlands) in 2000**
 - Production plant remains in Waterbury, VT
 - Use locally sourced ingredients whenever possible
 - Champion of U.S. consumer and shareholder values



QUALITY FACTOR

NUANCED RATHER THAN ABSOLUTE



QUALITY FACTOR

High-quality stocks experience consistent earnings growth, low volatility, and can weather economic downturns

Metrics:

Return on Equity (ROE), Debt/Equity, Operating margins, CF generation



GROWTH FACTOR

Growth stocks seek high capital appreciation through rapid expansion

Metrics:

Future earnings growth



VALUE FACTOR

Value stocks aim for undervalued opportunities with potential for price correction

Metrics:

Price to earnings (P/E), Price to Book (P/B), Price to Sales (P/S)

SAVE THE DATE



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