

# TAKING STOCK: SHOULD CORPORATE PENSIONS GO ON THE DEFENSE?



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BLOG POST

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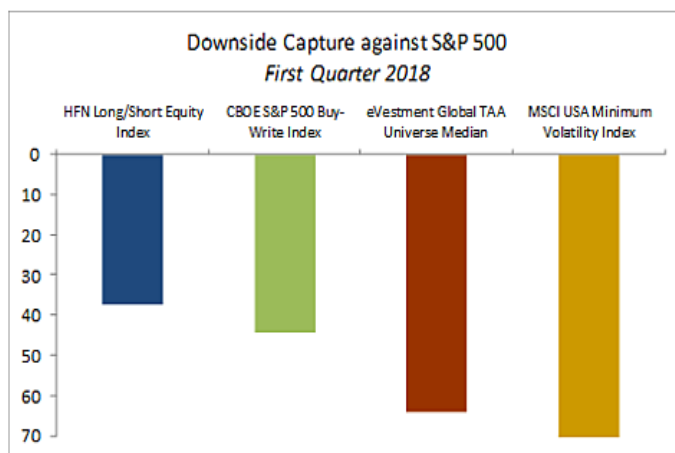
Investors may need to prepare for the [new normal](#) as the US economy settles into the late stage of its expansionary cycle. After an extended period of calm and rising asset prices, markets are experiencing greater [volatility](#) and fluctuating values.

At NEPC, we believe defensive equity strategies can provide meaningful downside protection and can be a natural fit for corporate pension plans that are pursuing a de-risking strategy after reaching funded status goals.

We highlighted defensive equity strategies in [January](#) last year and, for the most part, these strategies successfully weathered market shocks in 2018. Within the four different types of defensive equity approaches—equity long-short, options-based, multi-asset and traditional—equity long-short strategies provided the most downside protection over long periods of time, losing 3% compared to 10% for the Standard & Poor’s 500 Index, while traditional strategies fell 7% with corresponding declines of 10% for the S&P 500.

Last year saw two meaningful periods of market disruption. One, in the first quarter, when volatility spiked in late January, spilling into February. While this was a relatively brief time span, we see that the downside protection provided during this period across the different strategies was consistent with long-term results relative to the S&P 500 (Exhibit 1).

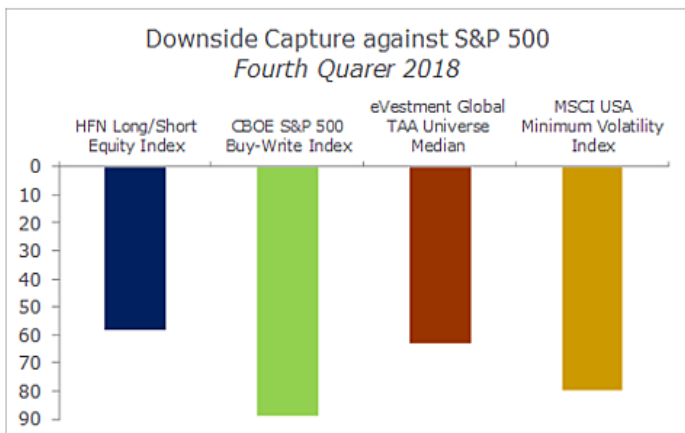
## EXHIBIT 1: 1Q 2018 DOWNSIDE CAPTURE AGAINST S&P 500



Source: eVestment Alliance

This was followed by a challenging fourth quarter which ended with the worst December for equities since 1931 (Exhibit 2); the long-term relationship holds again except for the buy-write index, which captured more downside than we would expect over longer drawdown periods. The steep decline of the S&P 500 limited the benefits from selling options during this brief period. Option premiums tend to recover after periods like these and deliver higher income going forward.

## EXHIBIT 2: 4Q 2018 DOWNSIDE CAPTURE AGAINST S&P 500



Source: eVestment Alliance

Stay tuned for a white paper we have in the works on options-based and traditional defensive equity strategies. Please contact your NEPC consultant if you would like to discuss defensive equity strategies in more detail.

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