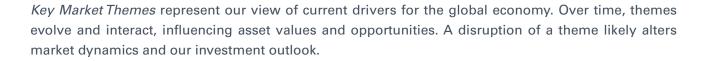


TAKING STOCK: PERMANANET INTERVENTIONS

An NEPC 2022 Key Market Theme

By NEPC Research

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PERMANENT INTERVENTIONS

As we stand at economic crossroads, our key market theme of permanent interventions—in place since 2019 and turbocharged by the COVID-19 pandemic—could cyclically fade as monetary policy assumes a less accommodative stance.

This longstanding theme underscores the unprecedented willingness of federal governments and central banks the world over to step in to bolster market sentiment. Its decline could lay bare the fragility of capital markets accustomed to easy money and curb the seemingly insatiable appetite for investment risk. The normalization of monetary policy and stimulus carries profound implications for investment portfolios and asset allocation strategies.

If not managed deliberately, an abrupt or excessive tightening of liquidity can potentially send markets into a tailspin, damaging investment values and exacerbating deflationary pressures. That said, the need to manage market sentiment is still paramount for the Federal Reserve, which will tighten monetary policy only if meaningful inflationary pressures—above and beyond past disinflation—force its hand.

We believe permanent interventions, even when weakened, can support elevated P/E ratios and sustain market sentiment; however, rising interest rates can put a dent to valuations, aiding value stocks on a relative basis. Given the potential for a more hawkish stance for monetary policy, fiscal stimulus remains, underscoring the continuing role of permanent interventions in boosting investor sentiment and economic growth.

At NEPC, we acknowledge the robust gains in equites fueled by extraordinarily accommodative monetary policies and expanding fiscal debt. At the same time, we also recognize the potential tail-risks—whose impacts are yet to be felt—as markets take for granted the continuing presence of these permanent interventions. The widespread use of central bank and fiscal interventions not only mutes business cycles, but also blunts their effectiveness in an economic downturn if the arsenal of monetary and fiscal policy measures are already depleted.

Against this backdrop of uncertainty around what the economic future holds and the path it will take, we remind our clients that diversification and balance are key in the presence of (waning) permanent interventions.

IMPORTANT DISCLOSURES

Past performance is no guarantee of future results.

All investments carry some level of risk. Diversification and other asset allocation techniques do not ensure profit or protect against losses.

This memo should not be considered customized investment advice. Please contact NEPC for advice specific to your investment program.

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