

NEPC MARKET OUTLOOK

RATE CUTS, RECORD HIGHS, AND
REGIONAL AFFAIRS

JULY 18, 2024

NEPC Asset Allocation



TODAY'S PRESENTERS



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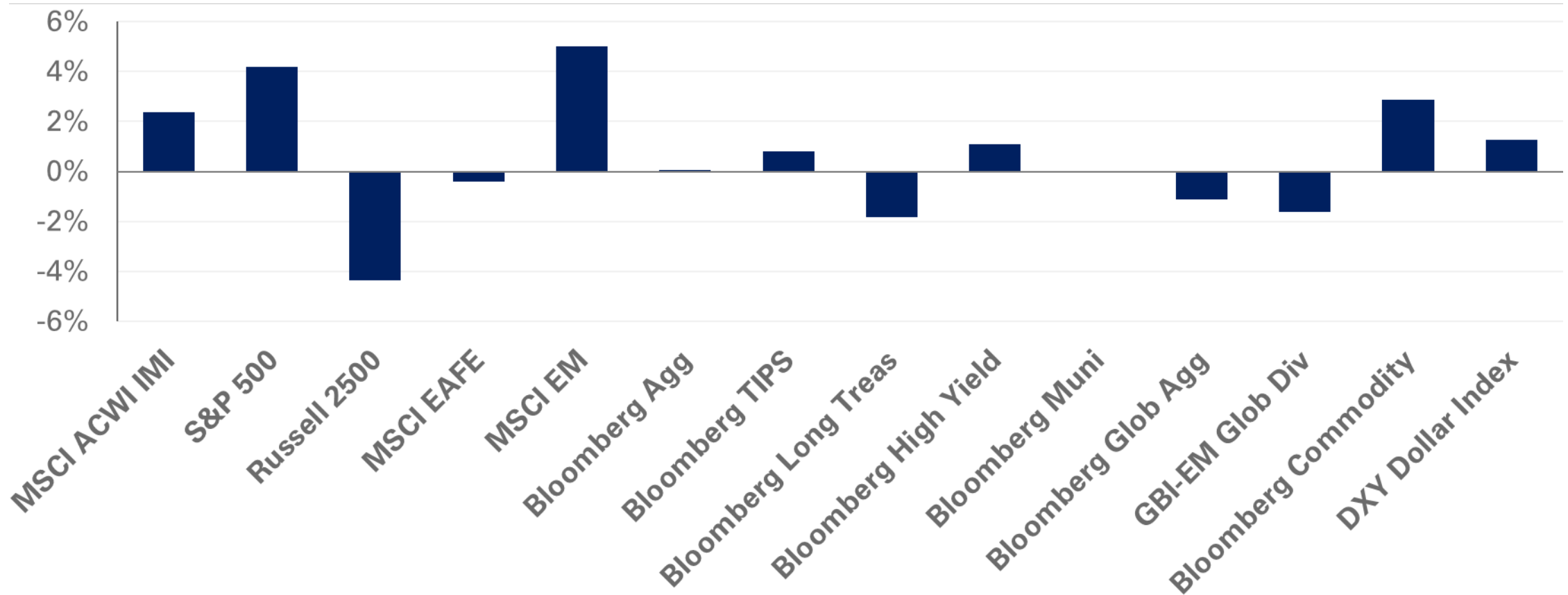


**Phillip R. Nelson,
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Partner,
Head of Asset Allocation

U.S. AND EMERGING EQUITIES OUTPERFORMED

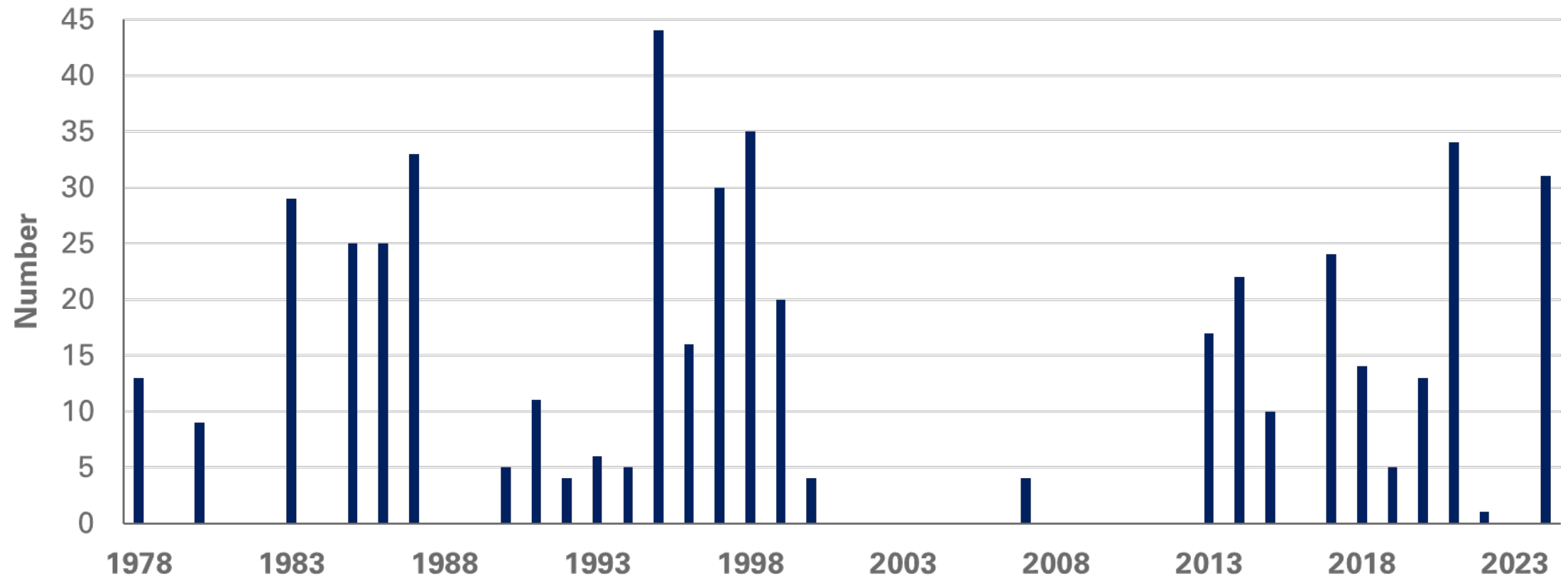
QUARTERLY TOTAL RETURNS



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

THE S&P 500 HIT NEW ALL-TIME HIGHS

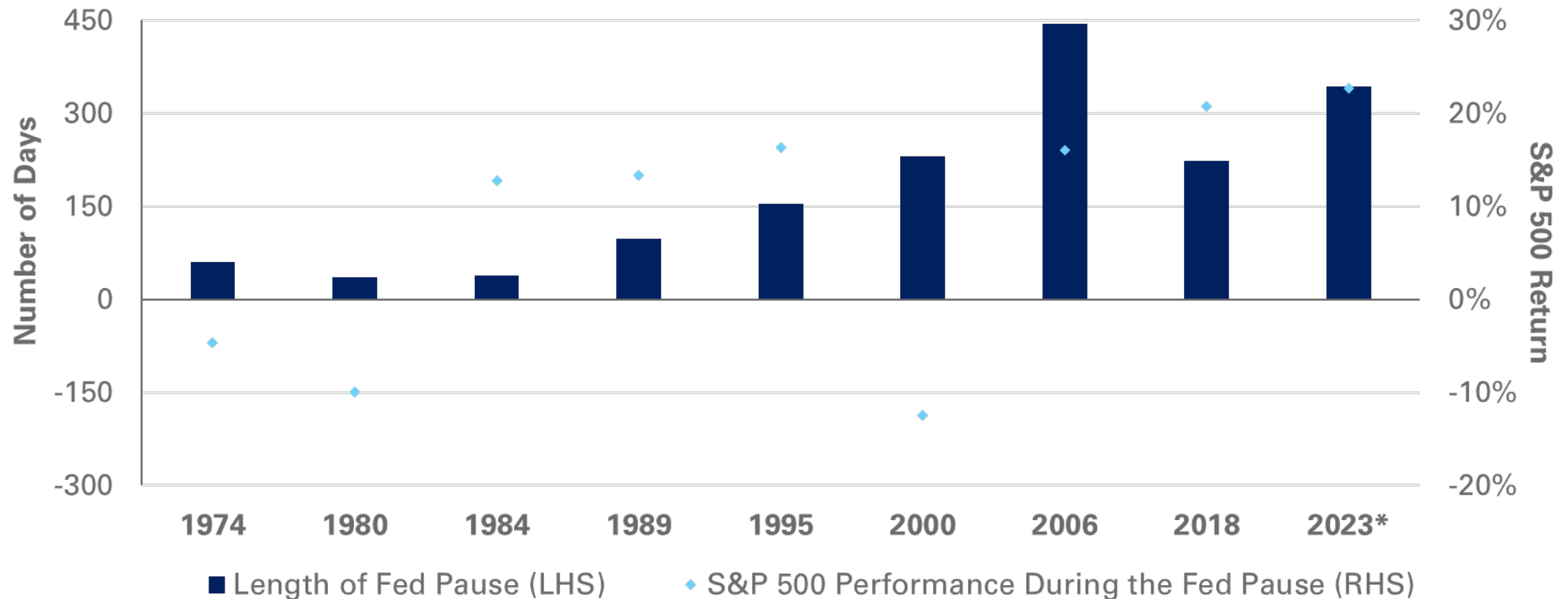
NUMBER OF RECORD HIGHS HIT IN FIRST 6 MONTHS OF YEAR



Sources: S&P, FactSet

FED PAUSES TEND TO BE FAVORABLE FOR STOCKS

THE S&P 500 DURING FED PAUSES

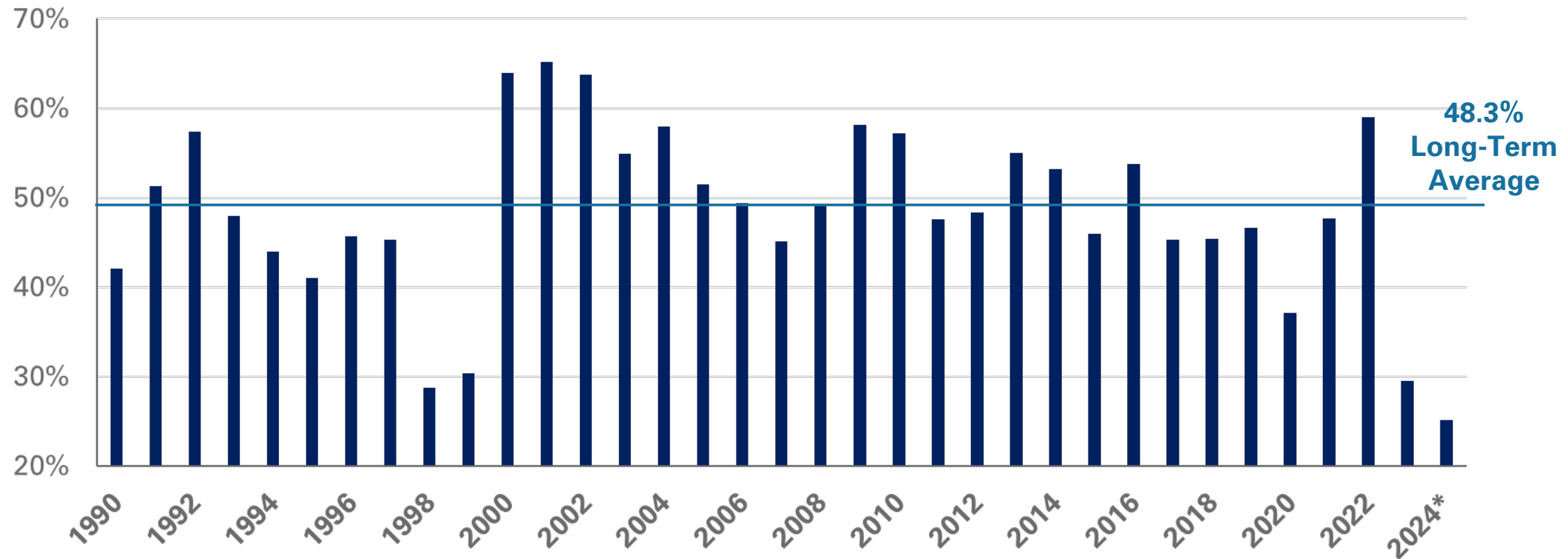


Note: *2023 reflects data through 06/30/2024. Fed "pauses" reflect the length of time between the last Fed hike and the first Fed rate cut
Sources: Federal Reserve, S&P, FactSet



U.S. EQUITIES HAVE A BREADTH PROBLEM

S&P 500 INDEX: % OF STOCKS OUTPERFORMING THE INDEX

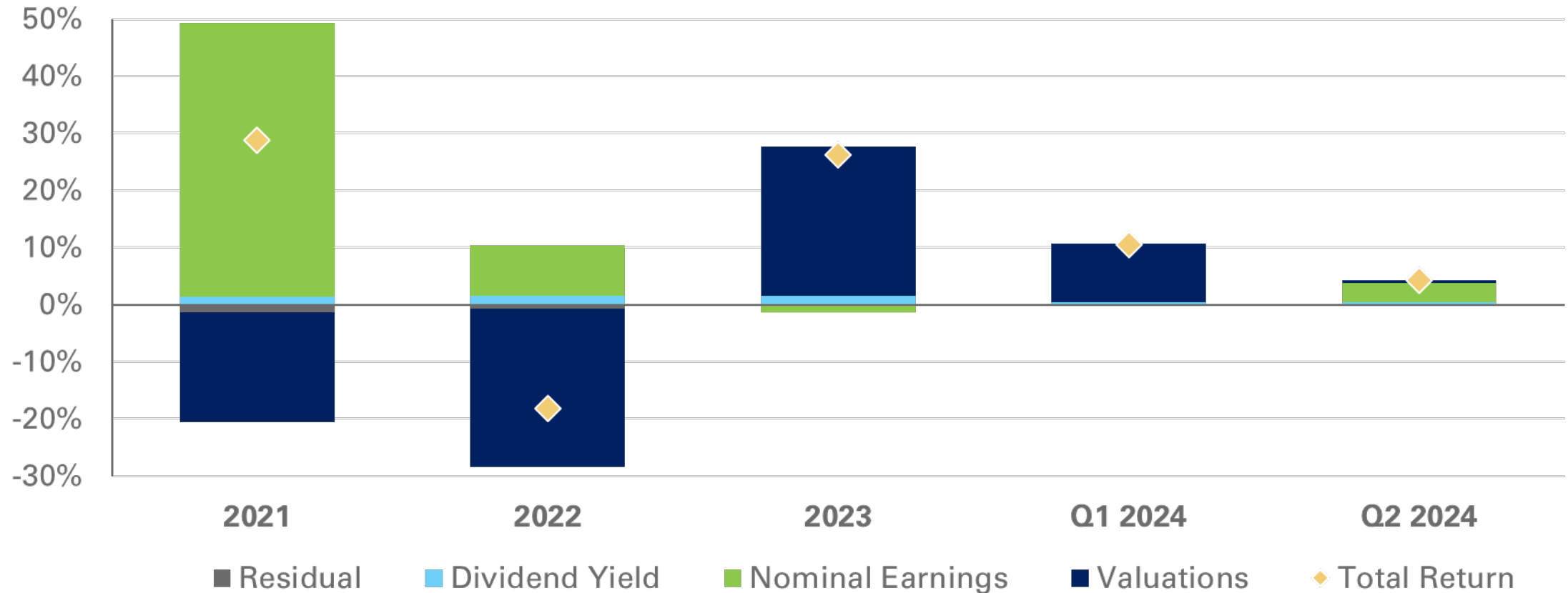


Note: *2024 reflects year-to-date returns through 06/30/2024. Data reflects price returns.
Sources: S&P, FactSet



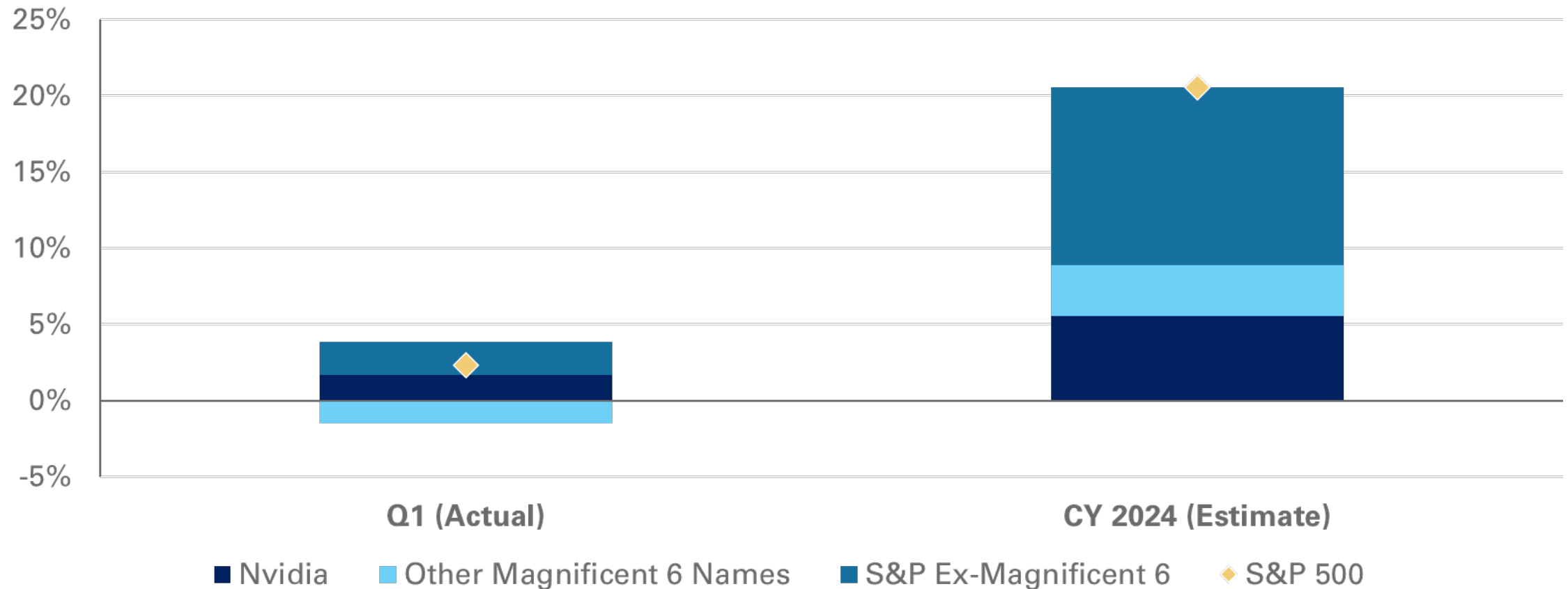
CAN EARNINGS SUPPORT EQUITY MOMENTUM?

S&P 500 RETURN DECOMPOSITION



EARNINGS GROWTH IS MORE THAN THE MAG-6

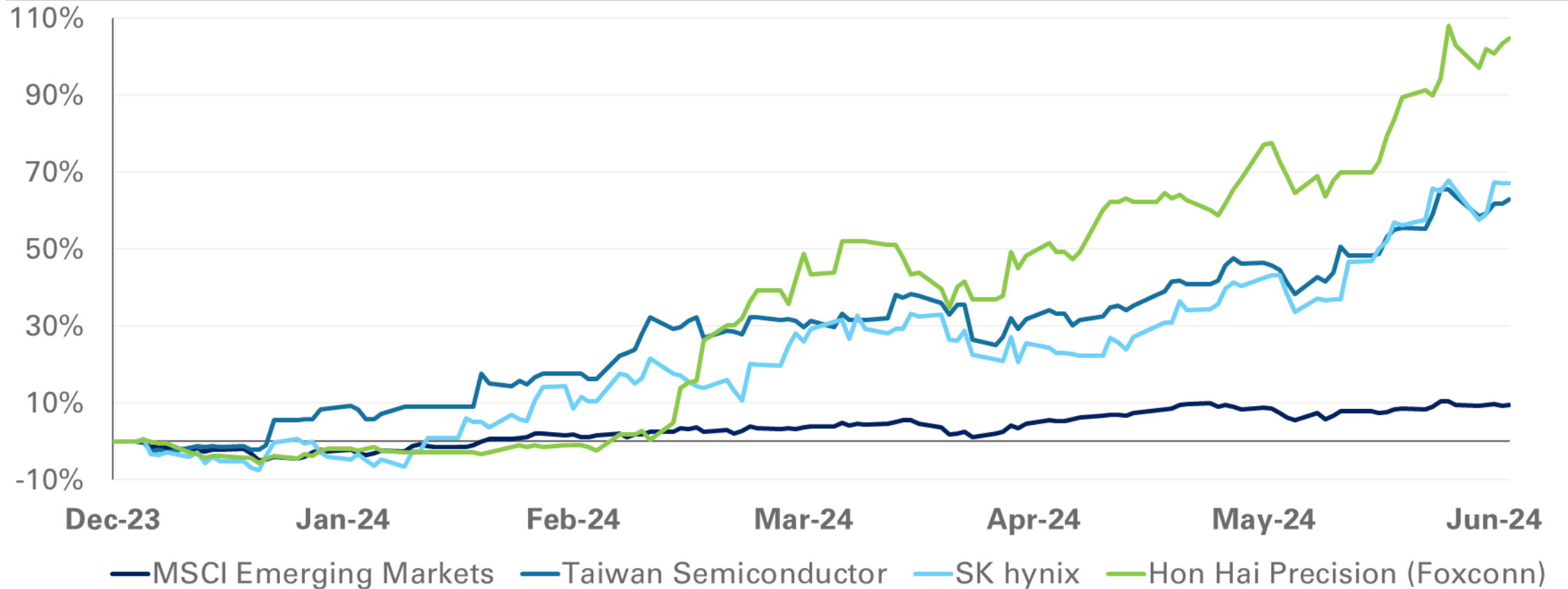
S&P 500 NET INCOME GROWTH EXPECTATIONS



Note: Estimates reflect FactSet and broker consensus estimates for quarterly net income growth. Magnificent 6 companies include Nvidia, Microsoft, Amazon, Apple, Meta, and Alphabet
Sources: S&P, FactSet, NEPC

SOME EM STOCKS HAVE BENEFITED FROM NVIDIA

YEAR-TO-DATE RETURNS

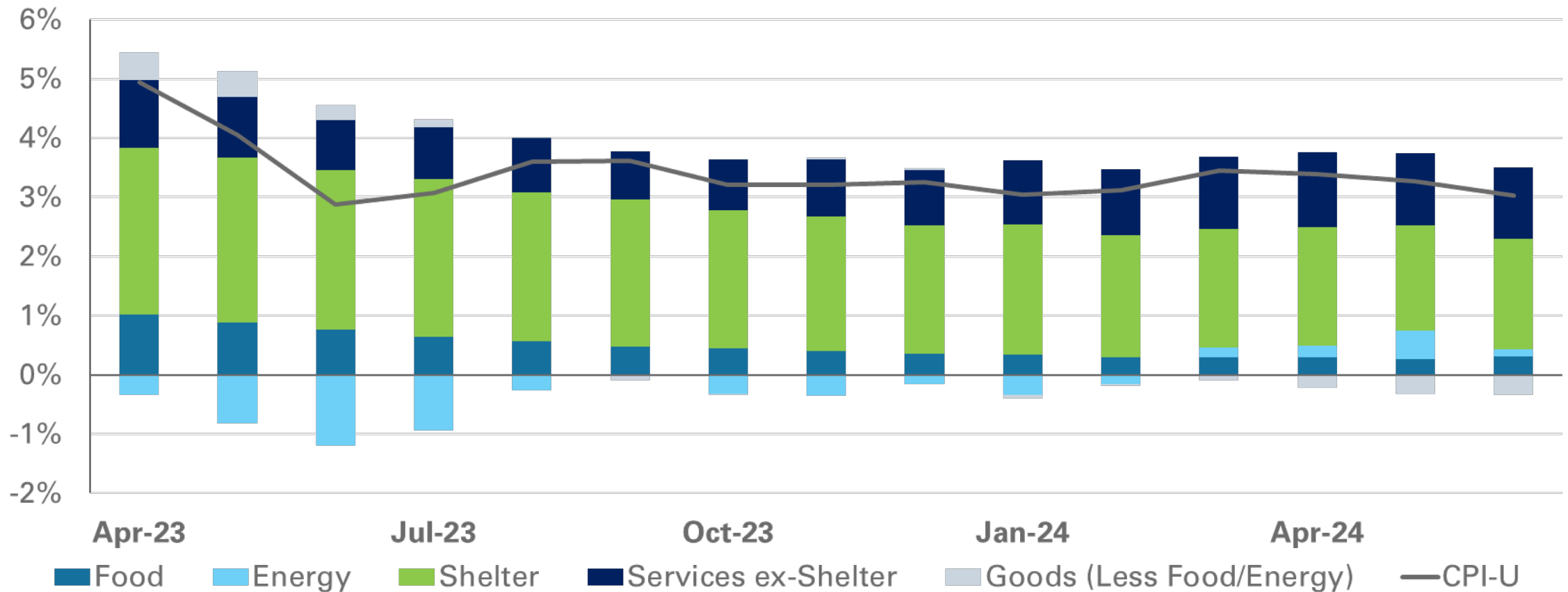


Note: data reflects year-to-date returns through 6/30/2024 in local currency terms
Sources: MSCI, FactSet



INFLATION PRESSURES ARE SOFTENING

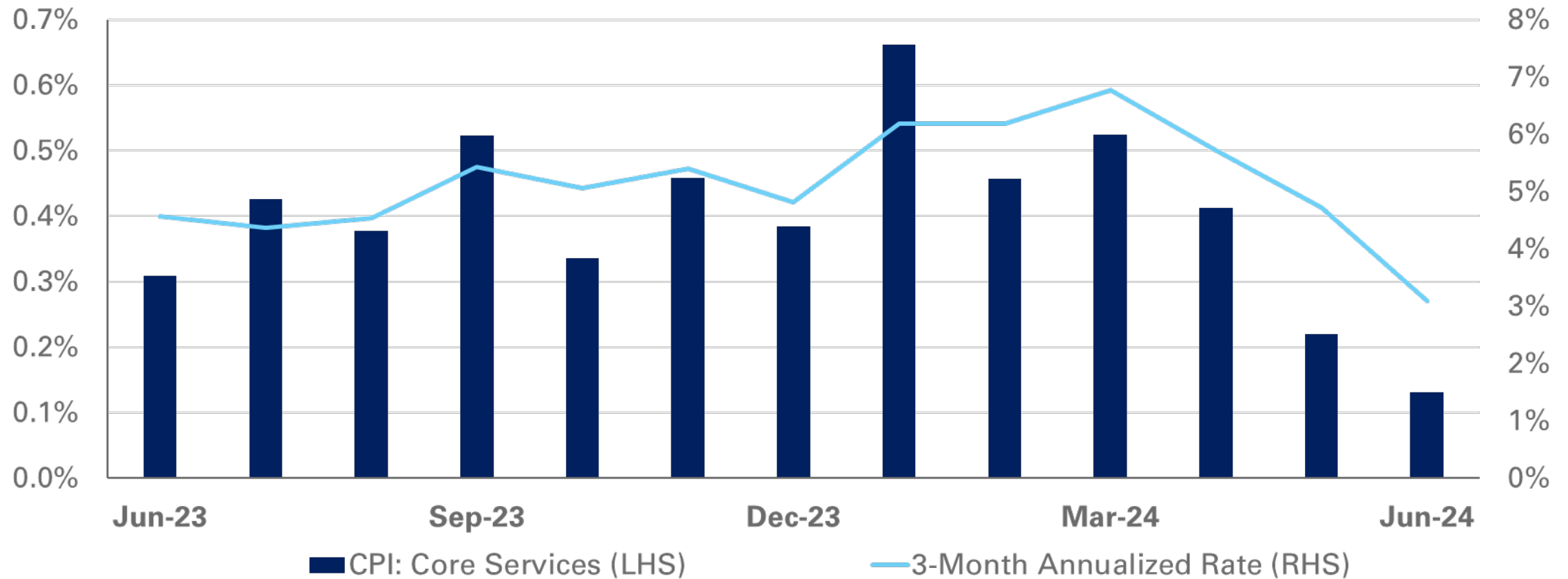
ANNUAL CHANGE IN THE U.S. CONSUMER PRICE INDEX



Sources: U.S. Bureau of Labor Statistics, FactSet

RECENT DATA POINTS TO BROAD DISINFLATION

MONTHLY CORE SERVICES CONSUMER PRICE INDEX



Sources: U.S. Bureau of Economic Analysis, FactSet

GOODS DEFLATION IS AN OUTLIER VERSUS HISTORY

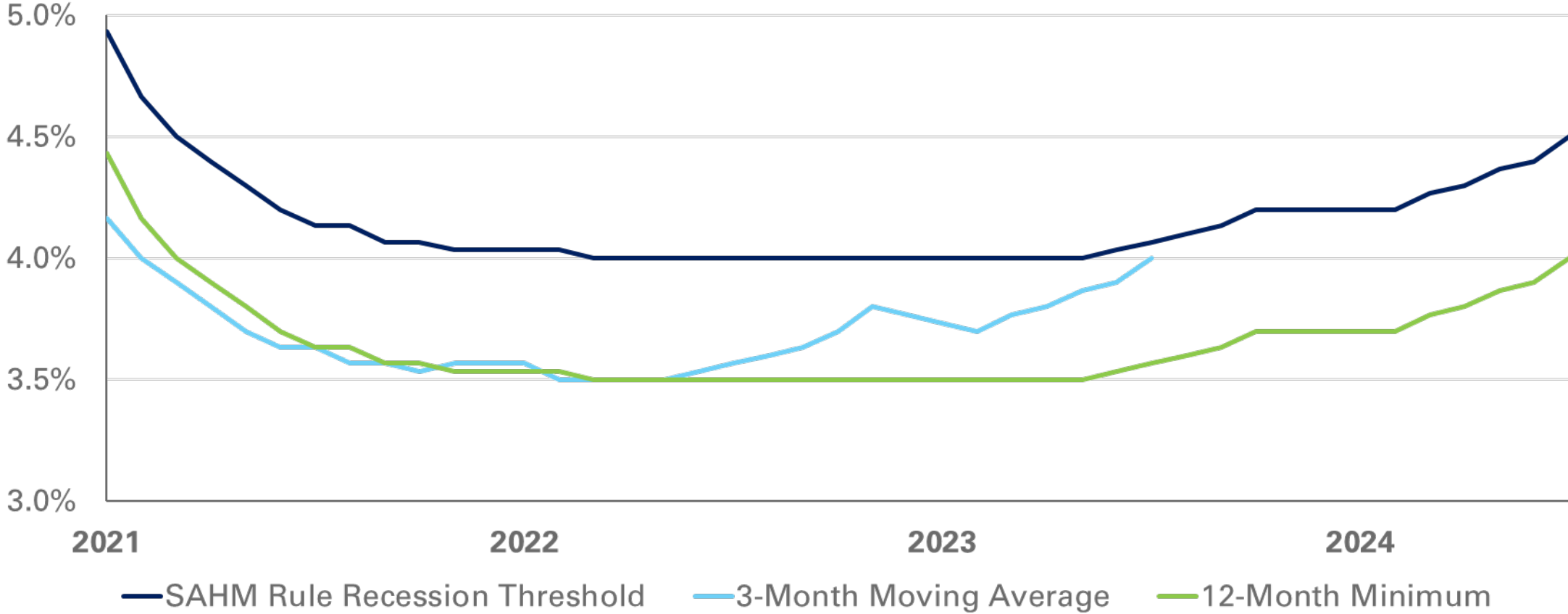
ANNUAL CHANGE IN CPI GOODS LESS FOOD & ENERGY



Note: Reflects annual change in CPI-U commodities less food and energy
Sources: U.S. Bureau of Labor Statistics, FactSet

LABOR MARKET DATA IS SENDING MIXED SIGNALS

U.S. UNEMPLOYMENT: THE SAHM RULE



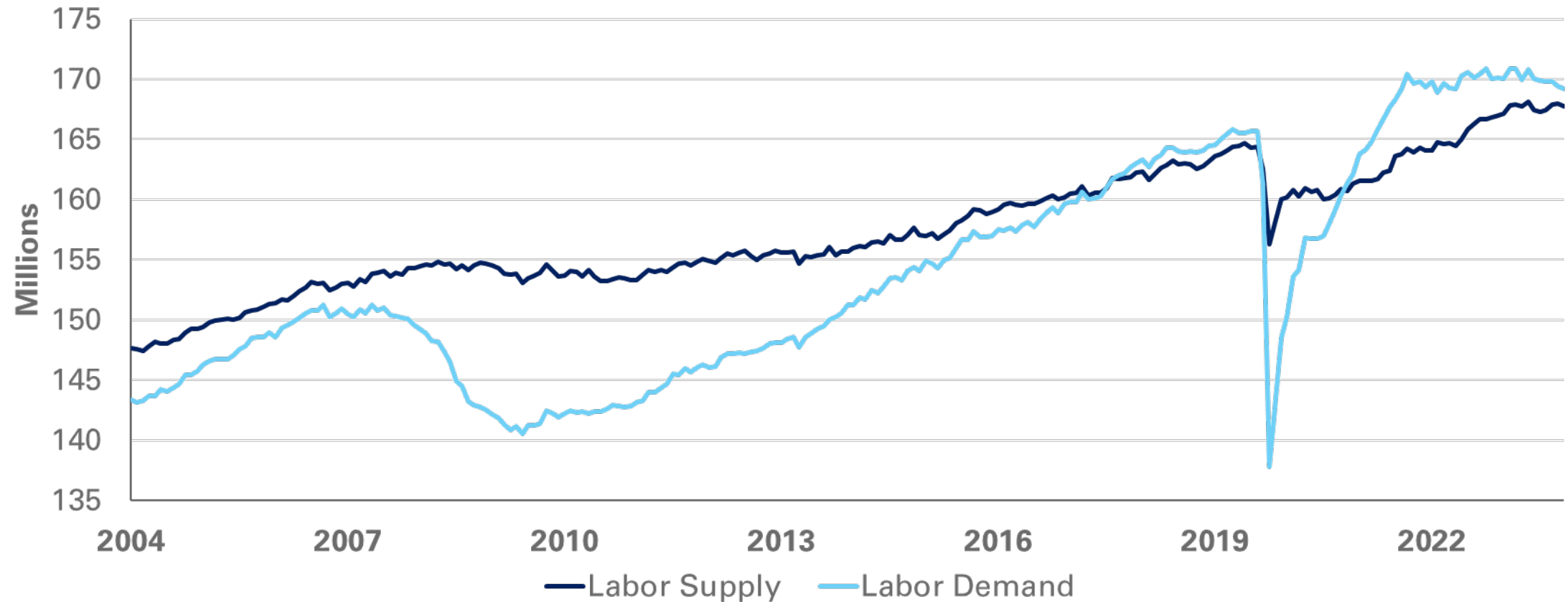
Note: The SAHM Rule is a recession indicator that signals the start of a recession when the three-month moving average of the unemployment rate rises to 0.5% above the minimum of the prior twelve months.

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



LABOR SUPPLY-DEMAND IS IN BETTER BALANCE

U.S. LABOR MARKET SUPPLY VERSUS DEMAND

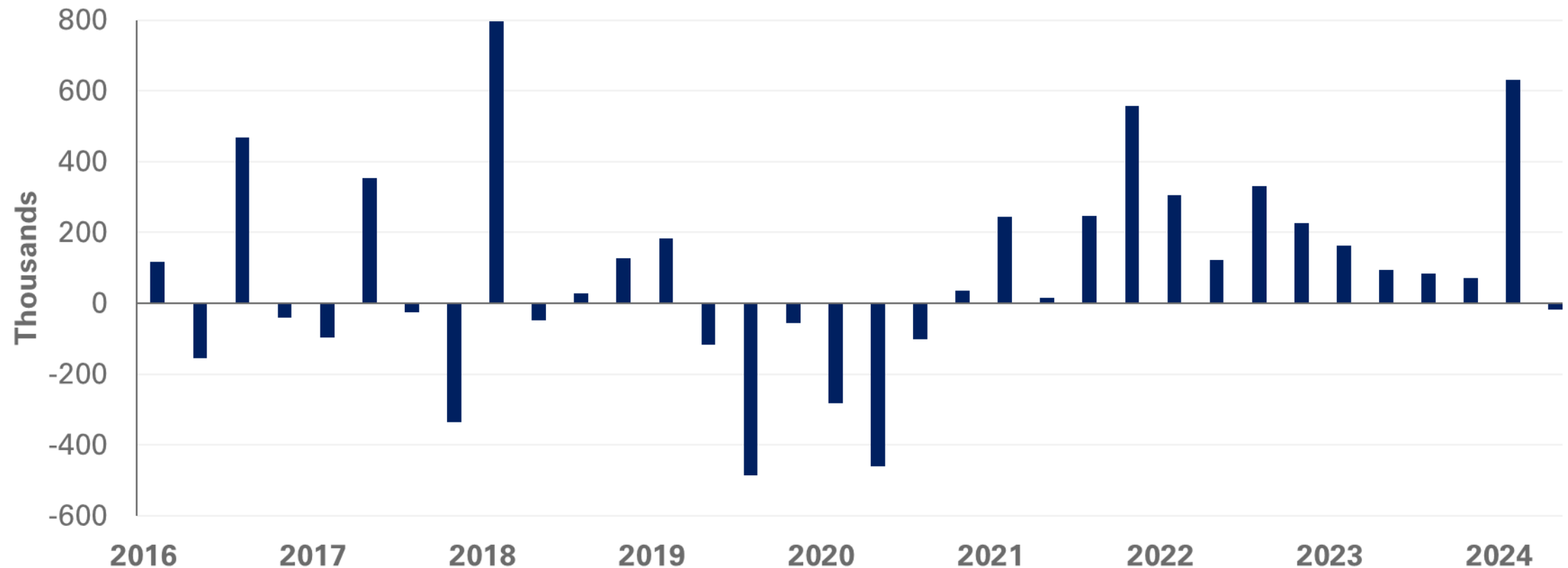


Note: Labor Supply = labor force, Labor Demand = total employed + nonfarm job openings
Sources: U.S. Department of Labor, FactSet, NEPC



IMMIGRATION HAS SUPPORTED LABOR SUPPLY

FOREIGN-BORN WORKERS ADDED TO THE LABOR FORCE

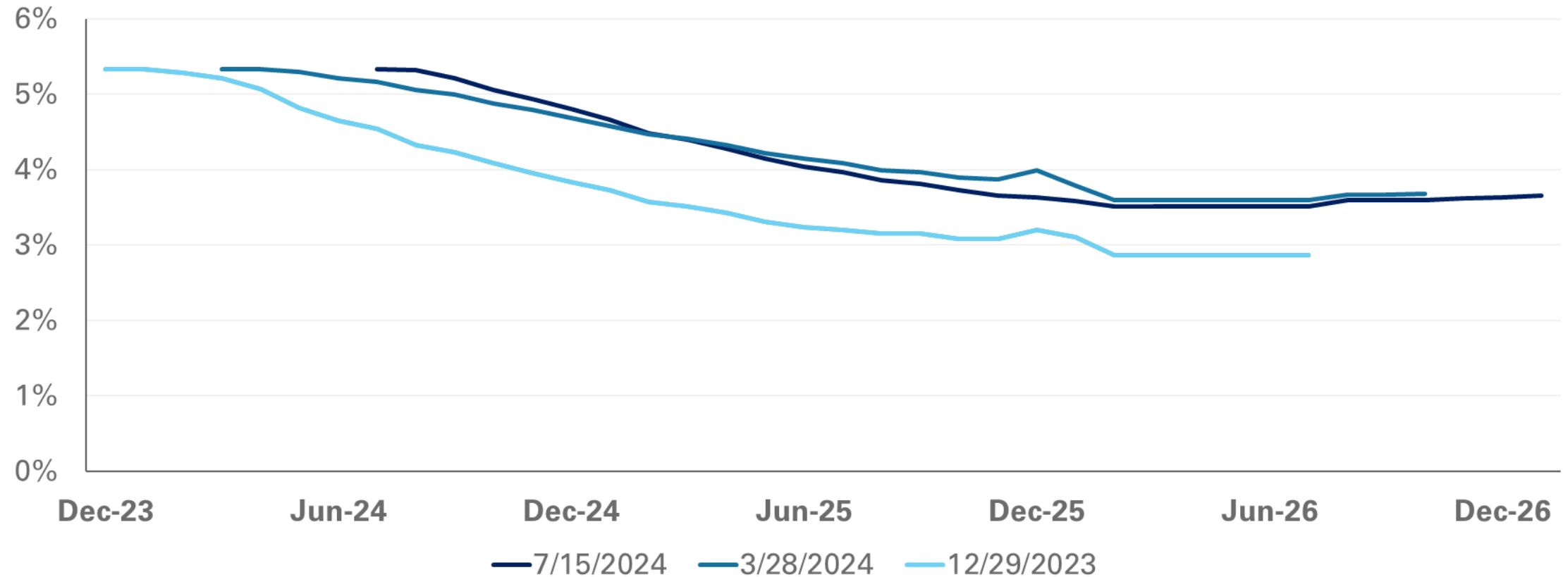


Note: Data reflects trailing six month moving average change in workers ages 25-54 using non-seasonally adjusted data. Foreign-born workers are those who reside in the U.S. but were not citizens at birth. They include legally-admitted and undocumented immigrants, refugees, and temporary residents.
Sources: U.S. Department of Labor, FactSet



RATE CUT EXPECTATIONS HAVE BEEN PUSHED OUT

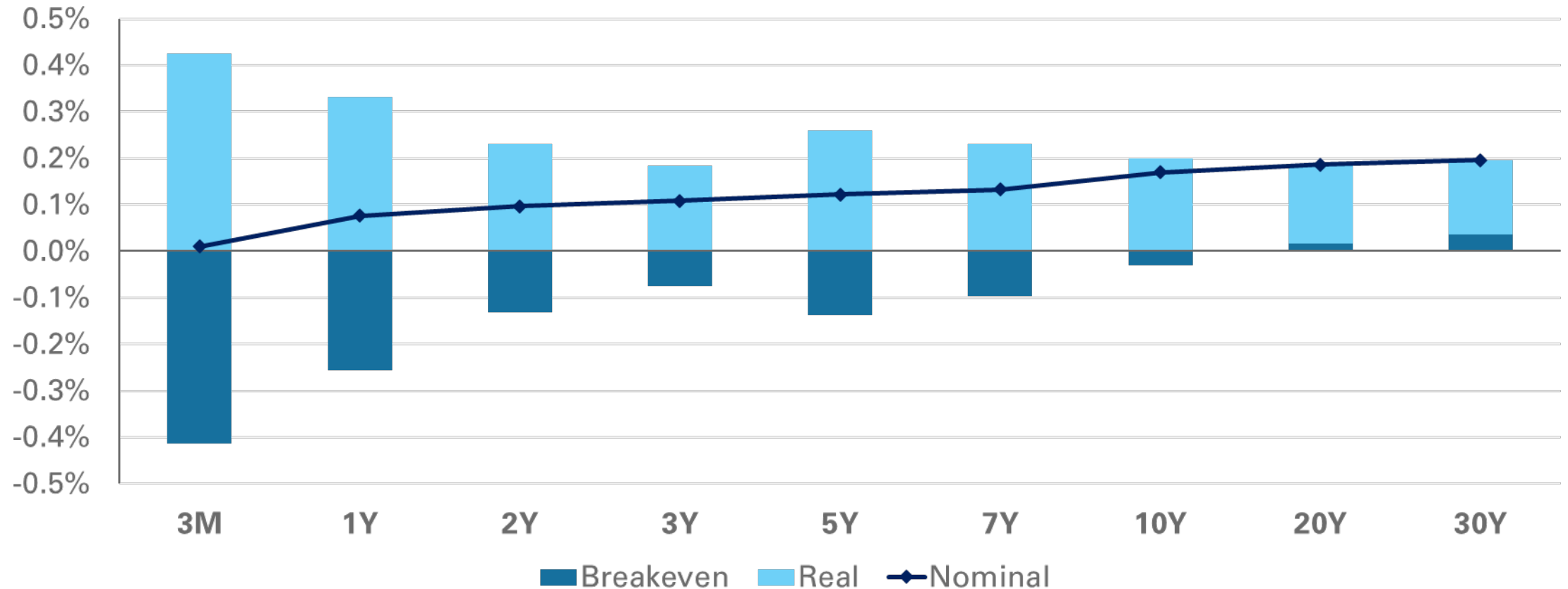
FED FUNDS FUTURES EXPECTATIONS



Source: FactSet

REAL YIELDS DROVE THE CURVE HIGHER IN Q2

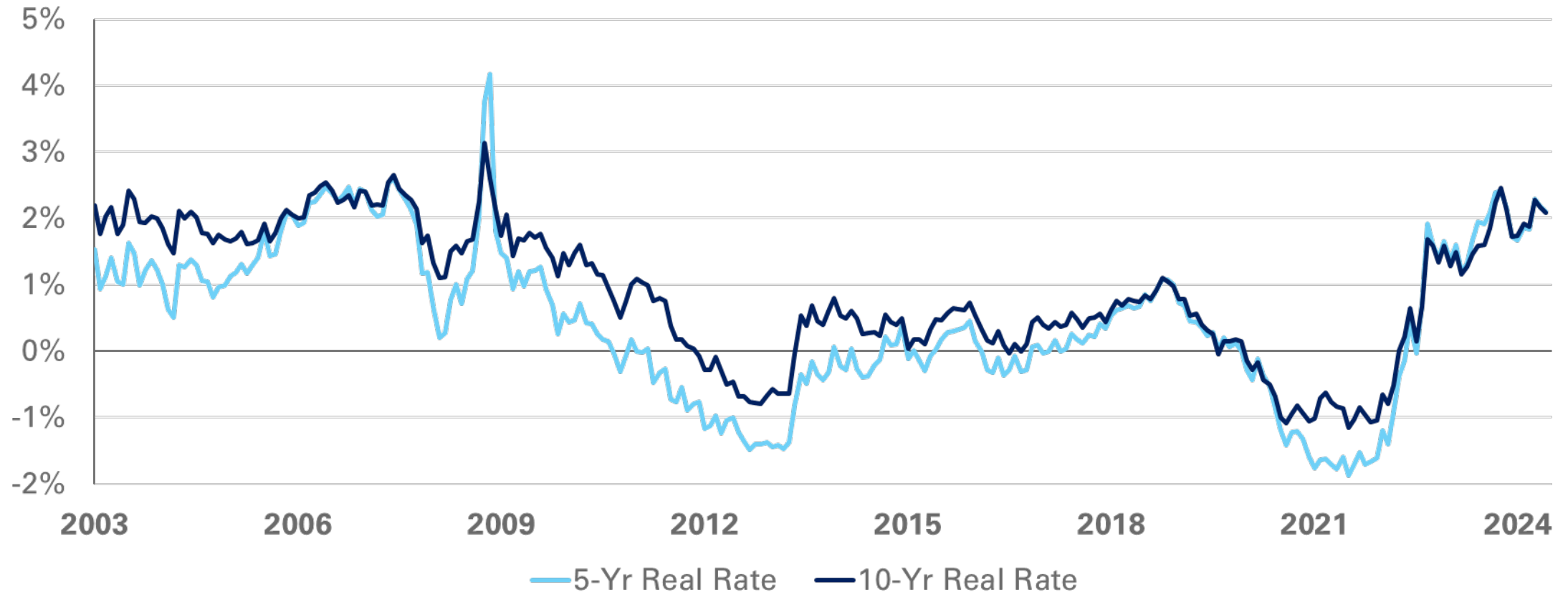
QUARTERLY CHANGE IN THE U.S. YIELD CURVE



Source: FactSet

TIPS REAL YIELDS REMAIN ATTRACTIVE

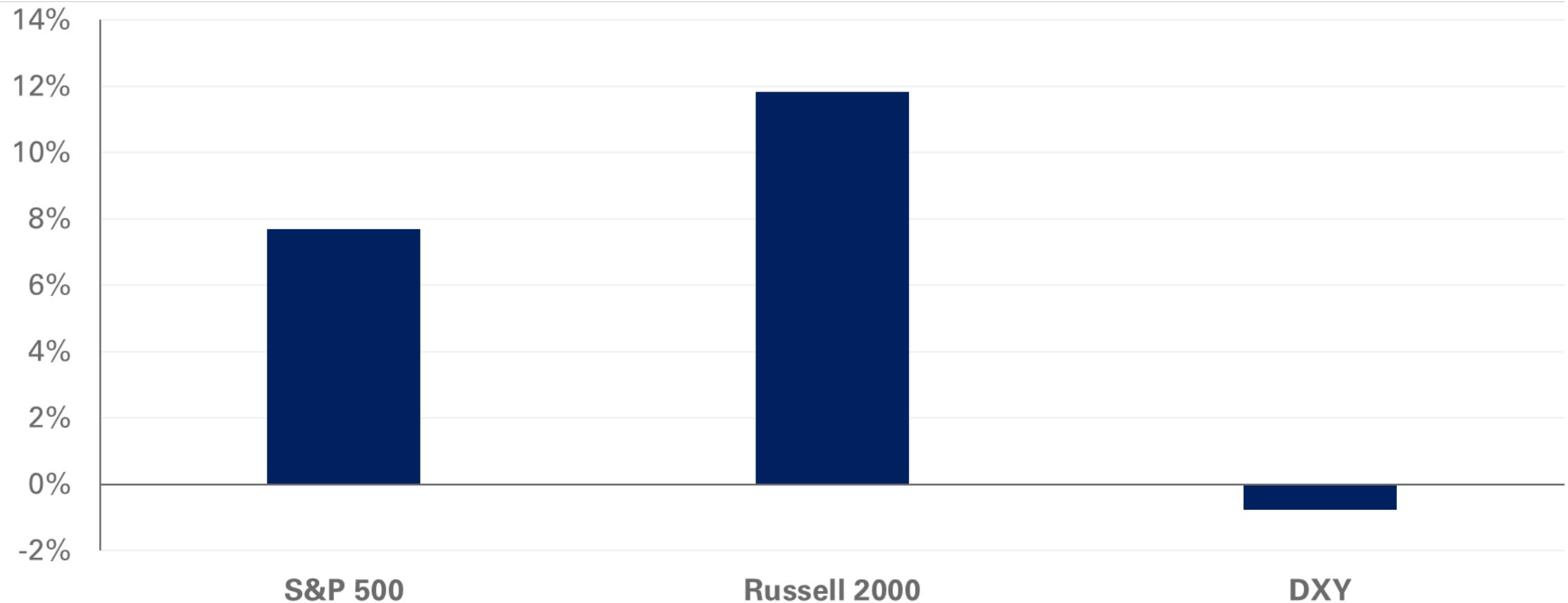
5-YEAR AND 10-YEAR U.S. TIPS REAL YIELDS



Source: FactSet

MARKETS LIKE RATE CUTS FOLLOWING A “PAUSE”

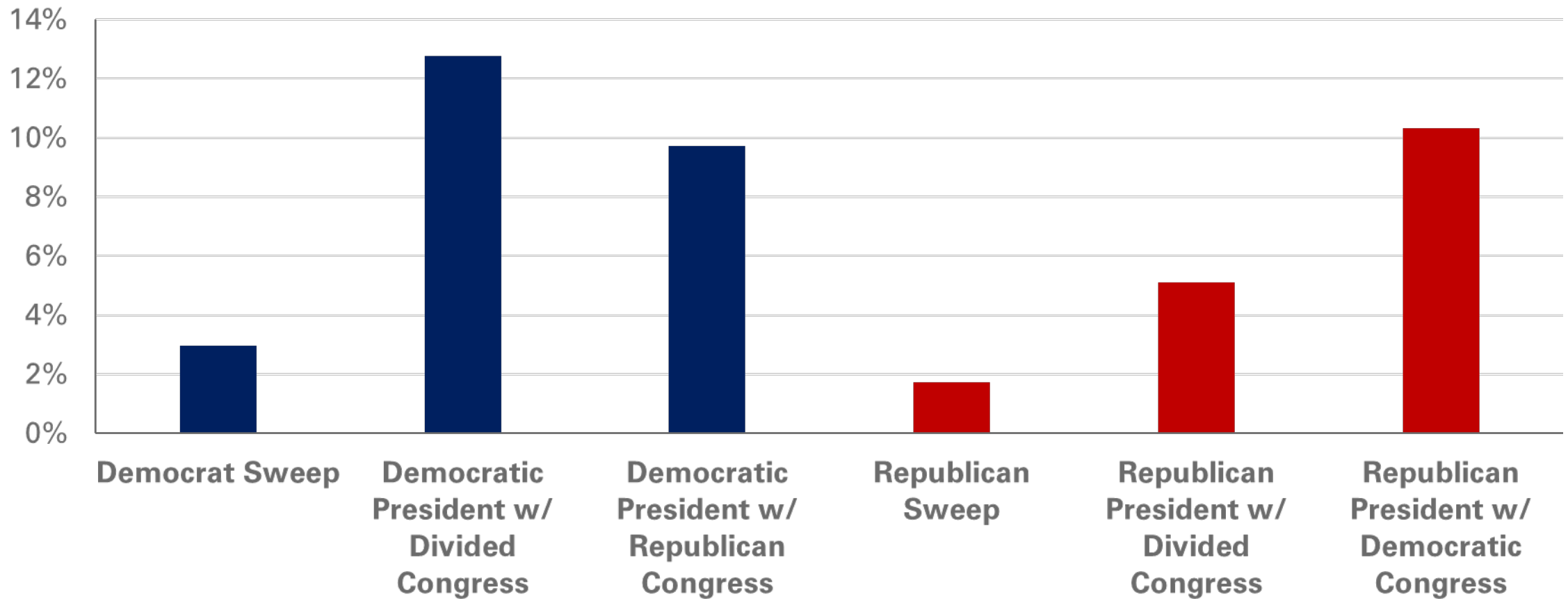
MARKET RETURNS 1-YEAR FOLLOWING A FED RATE CUT



Note: Chart reflects instances where the Federal Reserve cut interest rates following a Fed “pause”.
Sources: S&P, Russell, FactSet

A DIVIDED GOVERNMENT IS GOOD FOR MARKETS

AVERAGE ANNUAL S&P 500 RETURNS DURING ELECTION YEARS

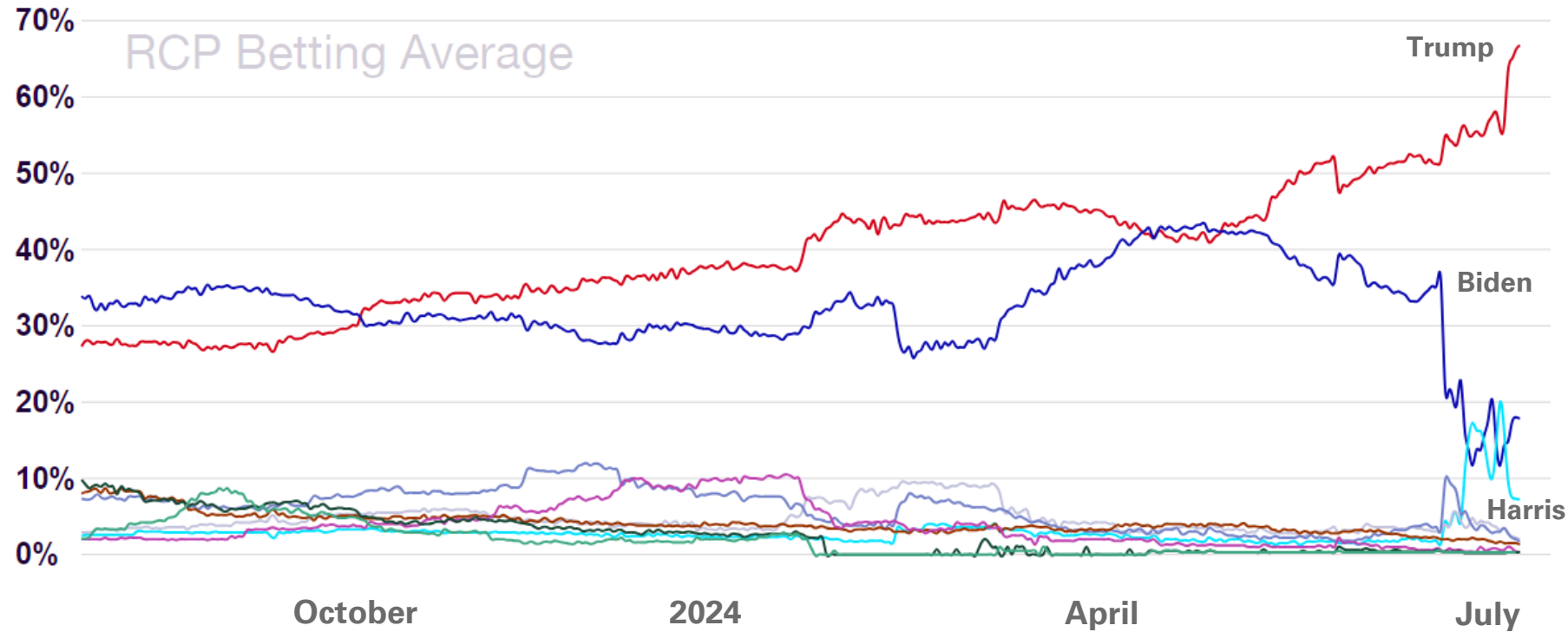


Notes: Data calculated 1938 to present
Sources: White House History, House Press Gallery, S&P, FactSet



U.S. ELECTION SEASON KICKED OFF EARLY

2024 U.S. PRESIDENTIAL BETTING ODDS



U.S. ELECTION SEASON: KEY DATES

July 15 to 18
RNC Convention

August 19 to 22
DNC Convention

September 20
Early Voting Start*

November 5
Election Day

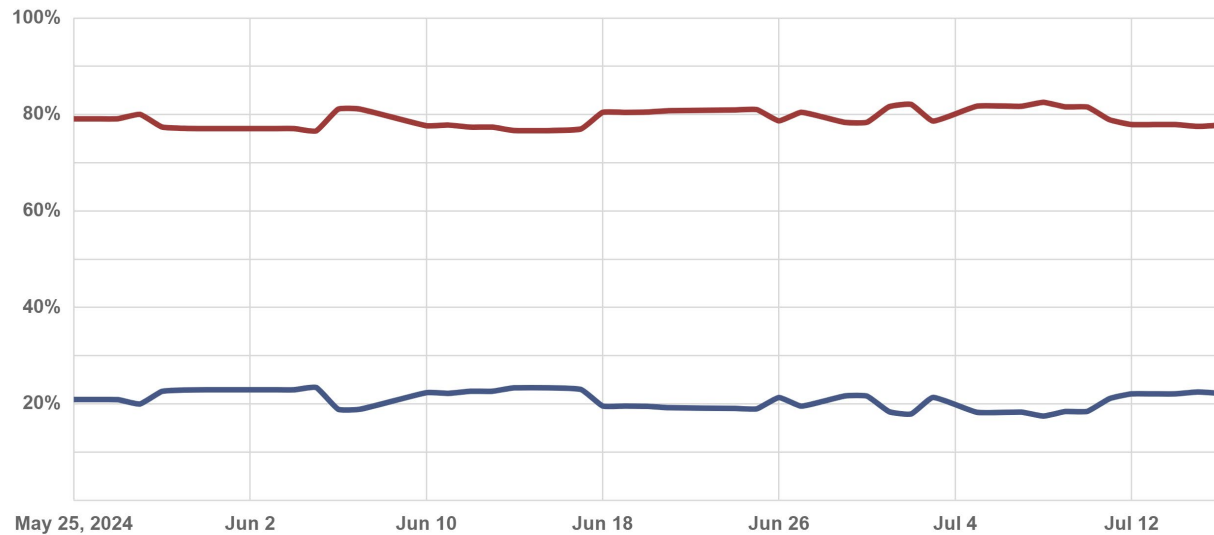


Note: Reflects RCP average across election betting odds sites, Early voting begins in Virginia
Sources: RealClearPolitics, FactSet, <https://www.realclearpolling.com/betting-odds/2024/president>

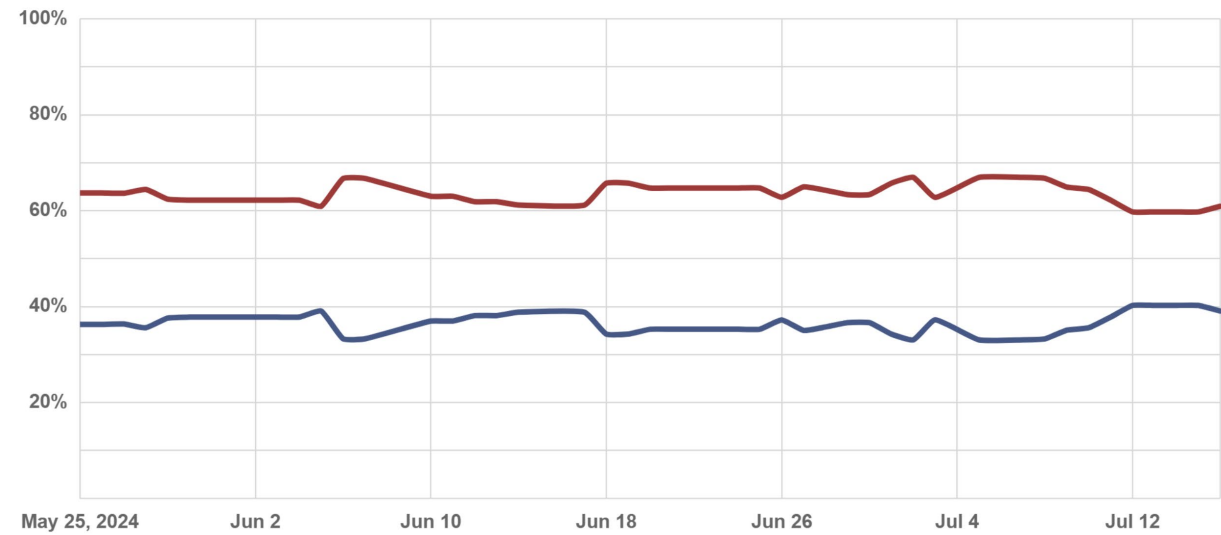
REPUBLICAN SWEEP INCREASINGLY LIKELY

FORECASTS FOR SENATE AND HOUSE PARTY CONTROL

U.S. Senate Control



U.S. House of Representatives Control



— Republican

— Democrat



Note: The Hill Decision Desk Forecast Model. Sources: The Hill, <https://elections2024.thehill.com/forecast/2024/senate/>

GOP CONTROL BRINGS BIGGER POLICY SHIFTS

KEY POLICY ITEMS THAT MAY IMPACT MARKET PRICING



Tax Policy

Potential reduction in Corporate tax rates and permanently maintaining current Income tax rates



Trade Policy

Potential levy of baseline Tariffs on foreign made goods with higher rates levied on some nations



Immigration Policy

Labor markets will be impacted with a more restrictive policy slowing net international migration

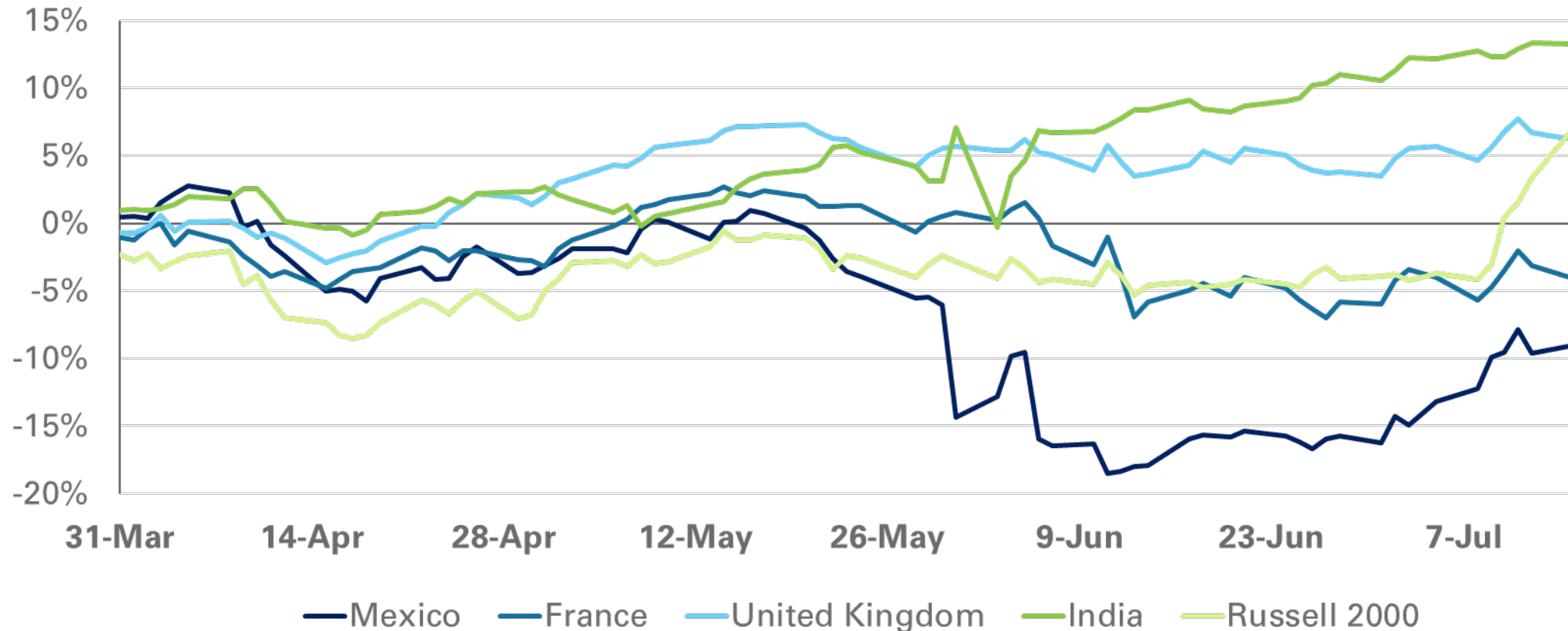


Regulatory Framework

Finance, Energy, and Manufacturing sectors likely benefit from reductions in regulation

MARKETS ARE REACTING TO POLITICAL NEWS

COUNTRY EQUITY MARKET RETURNS



Note: Chart reflects nations with major political and election events.
Sources: MSCI, Russell, FactSet



CONCLUDING THOUGHTS



The health of the labor market will drive the speed the Fed moves to lower rates in coming years



Mag-6 names are “priced for perfection” with future earnings growth expectations set at a high hurdle



The 2024 global election “Supercycle” increases the likelihood of geopolitical surprise for the market



We recommend adding a dedicated strategic policy target to U.S. TIPS to capitalize on attractive real interest rates

SAVE THE DATE



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