

# FEG 2024 Investment Outlook

Tuesday, January 30, 2024

# TODAY'S PRESENTERS

A tall, white lighthouse stands on a rocky cliff. The lighthouse has a cylindrical tower with a lantern room at the top. The sky is dark and cloudy, with a bright light source behind the lighthouse, creating a halo effect. The cliff is rugged and dark, with a small white building at the base of the lighthouse. The overall mood is dramatic and atmospheric.

## FEG INVESTMENT COMMITTEE MEMBERS:

**Greg Dowling, CFA, CAIA**

*Head of Research, CIO*

**Nolan Bean, CFA, CAIA**

*Head of Portfolio Management, CIO*

**Nathan Werner, CFA, CAIA**

*Managing Director, Private Capital*

## FIRM LEADERSHIP



**J. Alan Lenahan, CFA, CAIA**  
Chief Executive Officer



**William Goslee**  
President



**Rebecca (Becky) Wood**  
Board Of Directors, Chairwoman

## INVESTMENT COMMITTEE



**Nolan Bean, CFA, CAIA**  
Chief Investment Officer  
Head of Portfolio Management



**Greg Dowling, CFA, CAIA**  
Chief Investment Officer,  
Head of Research



**Nathan Werner, CFA, CAIA**  
Managing Director, Private Capital

- I. Quick 2023 Review
- II. Where Are We Now?
- III. Risks in Markets
- IV. Opportunities in Markets
- V. FEG Final Thoughts
- VI. Questions



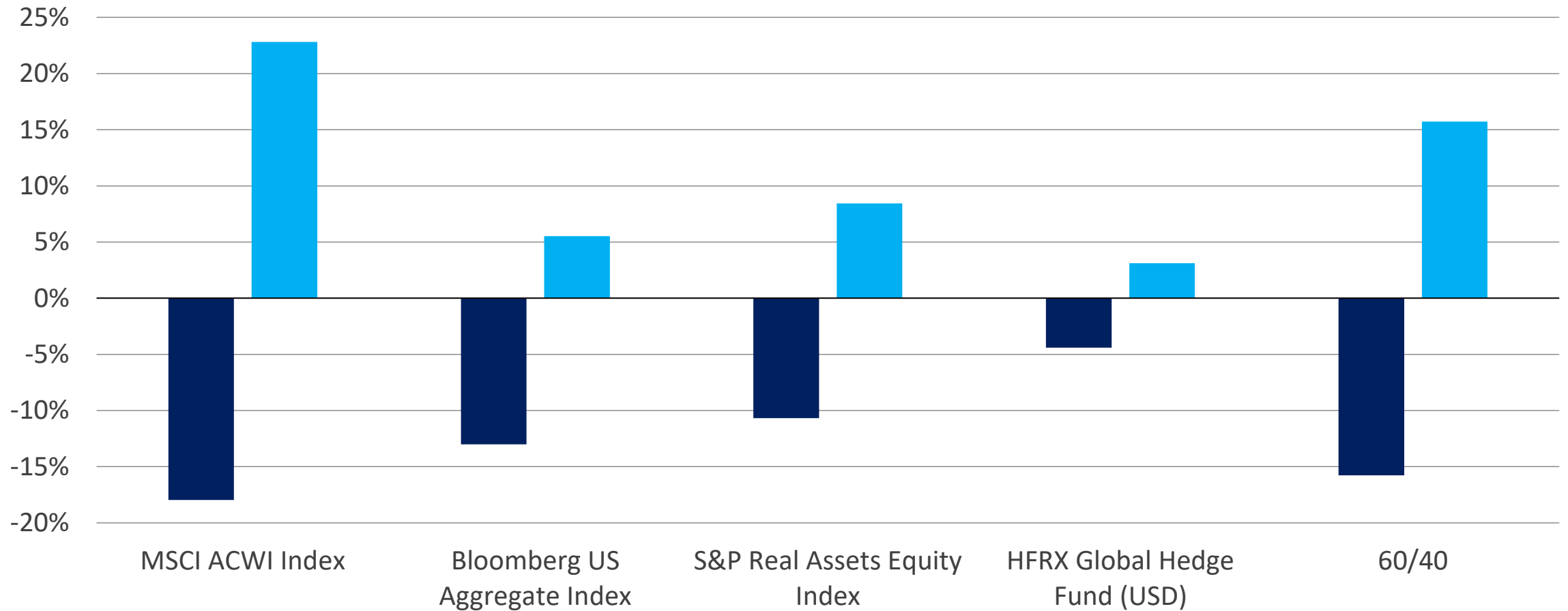
*Please ask questions throughout the webinar using the Q&A tab at the bottom of your screen*



## ASSET CLASS RETURNS

2022 vs. 2023

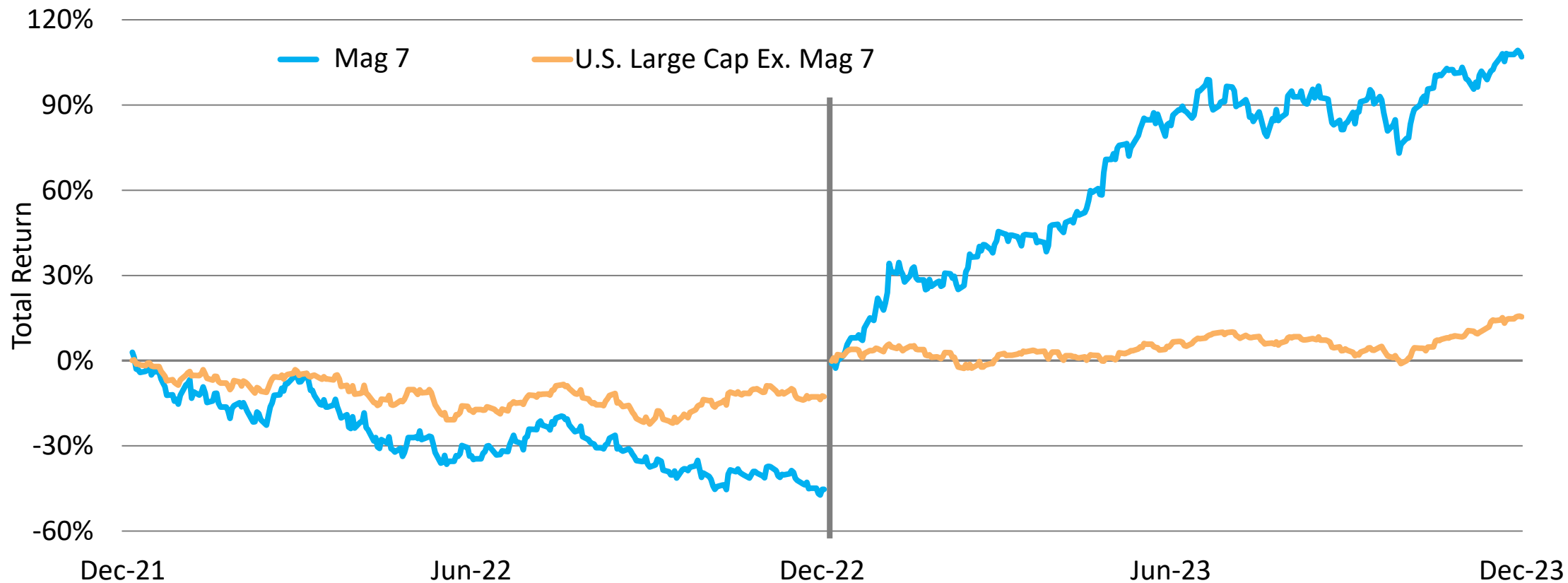
■ 2022 ■ 2023



Data Source: FactSet; Data as of 12/31/2023

- The Magnificent 7 plunged 45.3% in 2022 but more than recouped their losses in 2023, with a 107% gain on an equal-weighted basis.

## MAGNIFICENT 7 VS. REST OF MARKET 2022 AND 2023 PERFORMANCE EVOLUTION



Data Source: Bloomberg, L.P.; Data as of 12/29/2023; Note: Magnificent 7 = Google, Amazon, Apple, Meta, Microsoft, Nvidia, Tesla

FEG OCIO VFS DASHBOARD		VALUATION			FUNDAMENTAL			SENTIMENT
		Signal	Z-Score	Hist. %-ile	Signal	Z-Score	Hist. %-ile	Signal
GLOBAL EQUITY	U.S. Large Cap (Core)	●	1.80	83%	●	-0.22	55%	●
	U.S. Large Cap (Value)	●	0.88	65%	●	-0.27	60%	●
	U.S. Large Cap (Growth)	●	1.77	67%	●	-0.23	44%	●
	U.S. Mid Cap	●	0.92	65%	●	-0.69	36%	●
	U.S. Small Cap	●	-0.13	56%	●	-0.66	34%	●
	U.S. Micro Cap	●	-0.63	42%	●	-0.55	39%	●
	International Developed	●	0.63	68%	●	-0.16	58%	●
	Emerging Markets	●	-0.88	27%	●	0.10	66%	●
FIXED INCOME	Interest Rate Sensitive (Core)	●	-0.29	64%	●	1.57	-	●
	Credit Sensitive (High Yield)	●	0.52	93%	●	-1.07	22%	●
	TIPS	●	-0.92	29%	●	-0.12	48%	●
REAL ASSETS	Real Estate (U.S. REITs)	●	0.14	72%	●	-0.43	40%	●
	Commodities	●	-0.10	60%	●	-0.22	49%	●
	Global Listed Infrastructure	●	0.15	54%	●	1.02	68%	●

● POSITIVE ● NEUTRAL ● NEGATIVE

Data source: FEG, Bloomberg, L.P.; Data as of 1/19/2024; Z-scores represent the number of standard deviations a composite reading is above or below its historical average. Historical percentile represents the current composite reading within its historical range.





## Risks

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- Fed Policy & Inflation
- Geopolitics & Elections
- Capital Markets

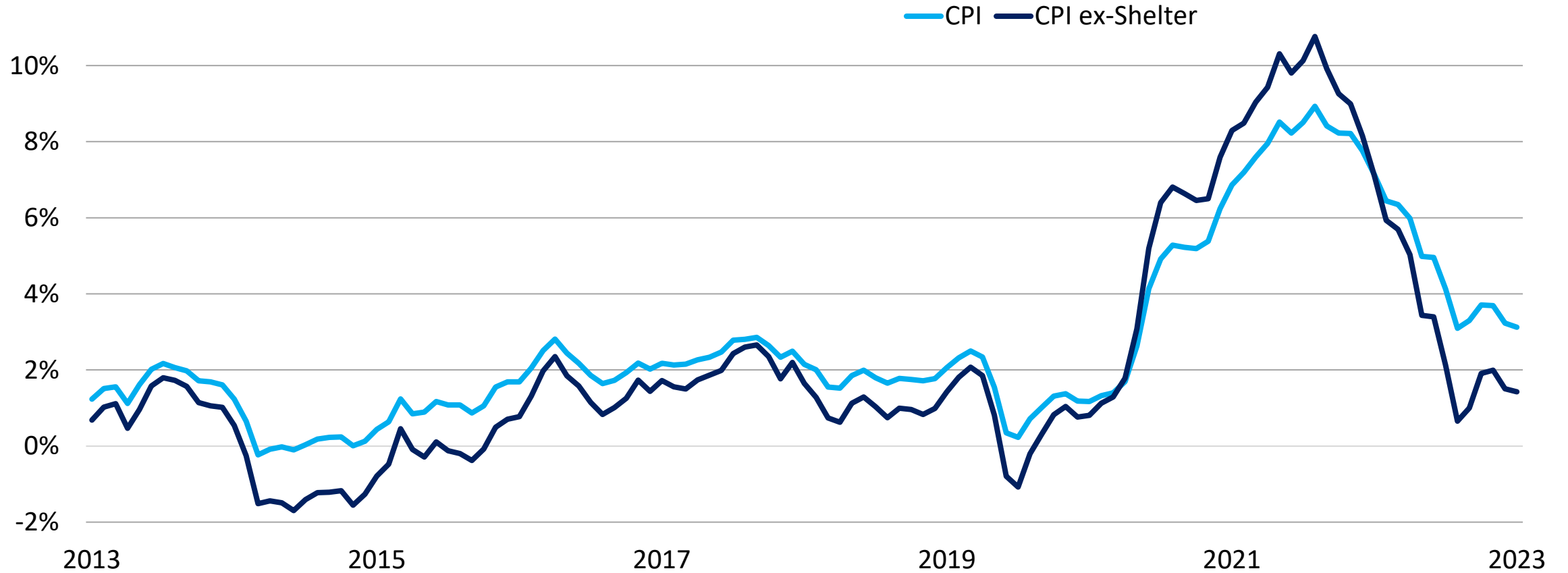
# RISKS

Will the Fed  
stick the  
landing?



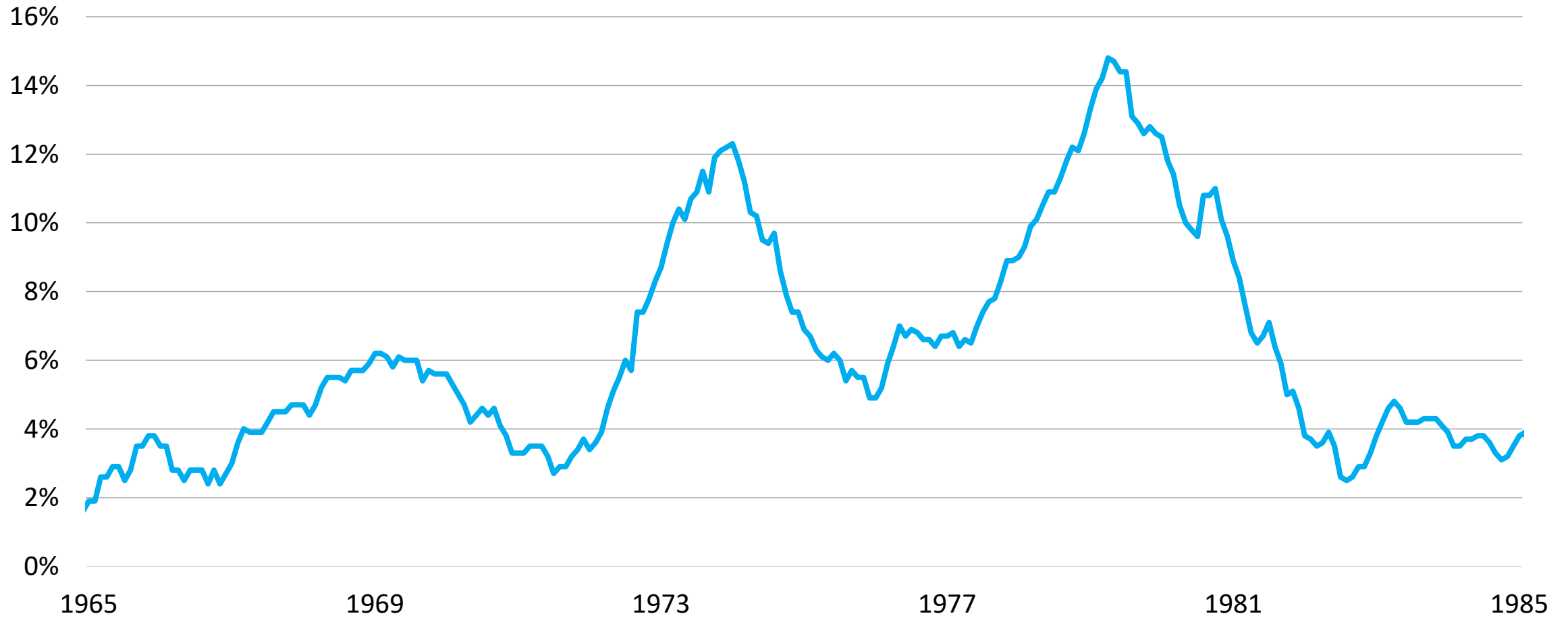
## THERE ARE SIGNS THAT INFLATION IS GETTING MORE TEPID

Consumer Price Index and Consumer Price Index ex-Shelter, Percentage Change from a Year Ago



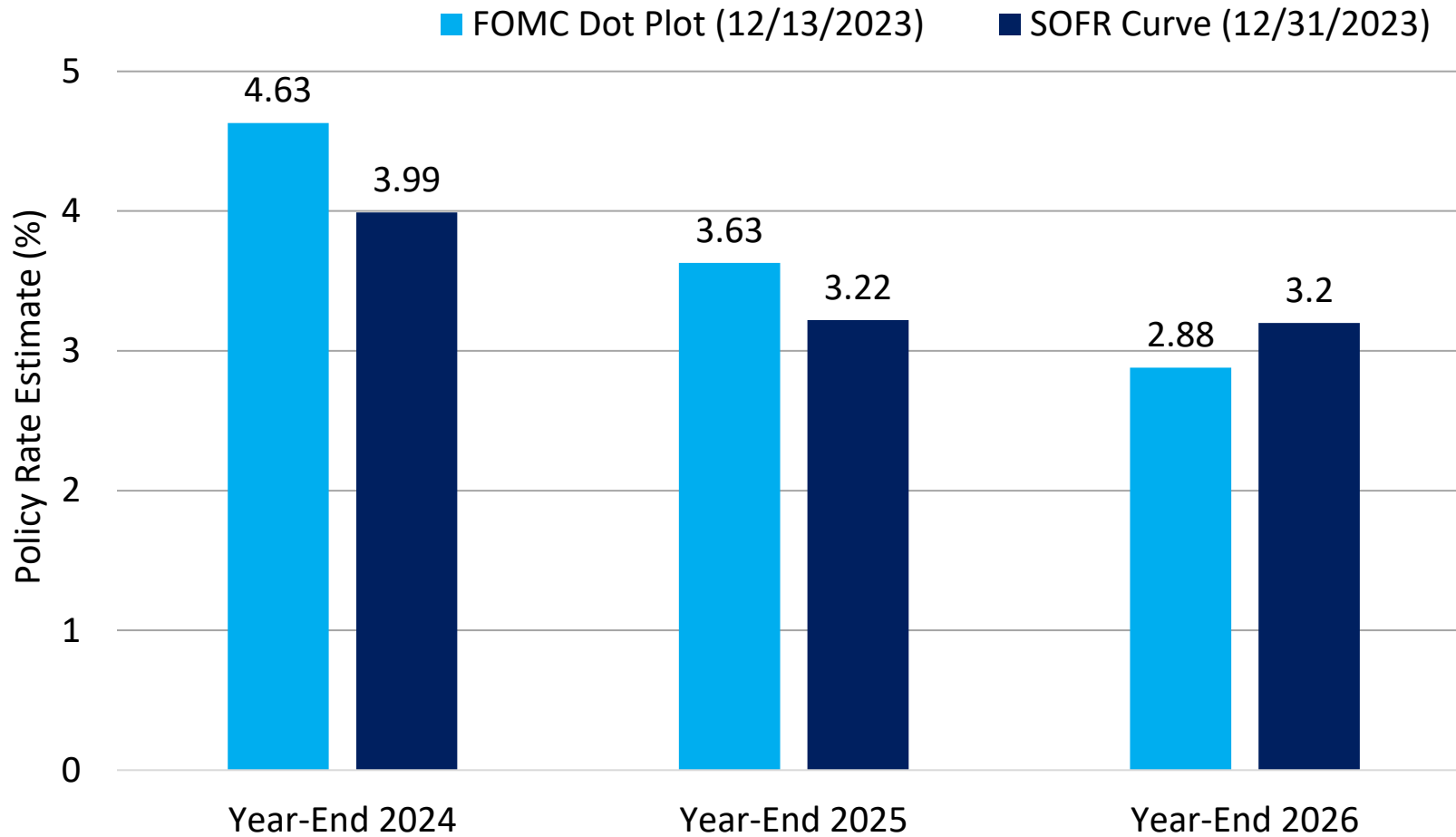
Data source: BLS, Bloomberg, L.P.; Data as of 12/31/2023

## U.S. CONSUMER PRICE INDEX (YOY)



Data source: BLS, Bloomberg, L.P. Date range = Dec. 1965 - Dec. 1985 (meant to demonstrate historic inflation).

## BOND MARKET HAS DISCOUNTED A MORE DOVISH NEAR-TERM PATH VERSUS THE FED



Data source: Federal Reserve, Bloomberg, L.P.; Data as of 12/31/2023

# RISKS

## Geopolitics

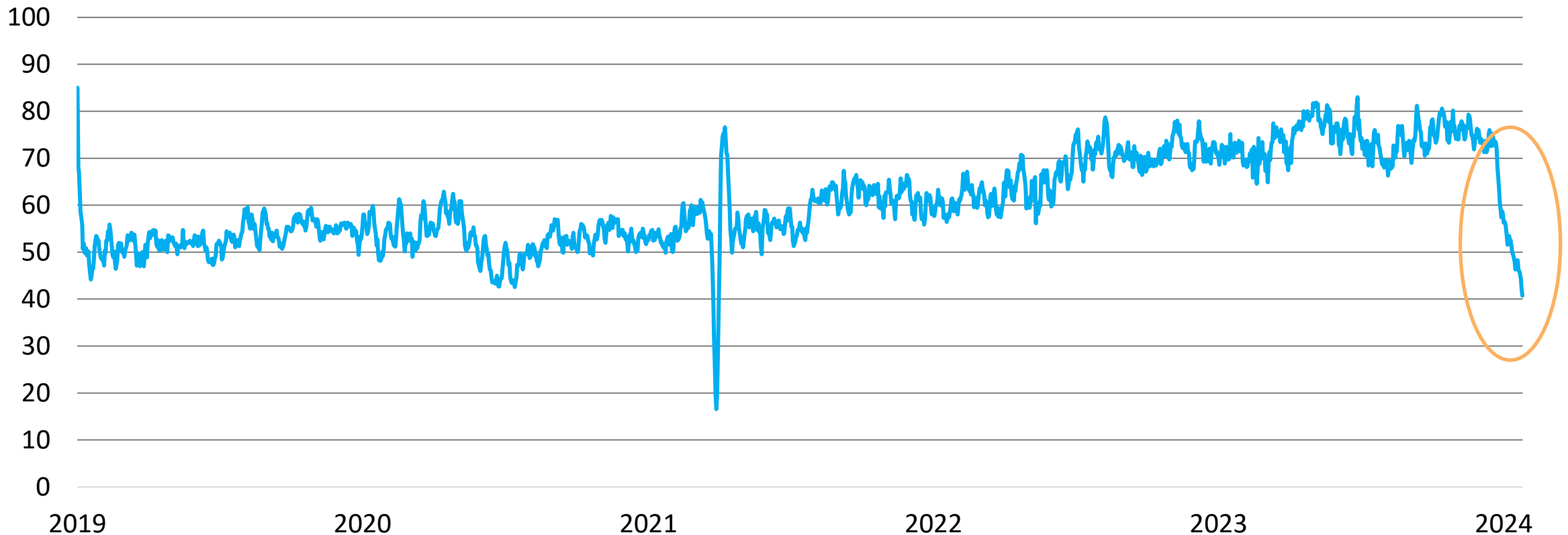
- U.S. Elections
- The Middle East
- Russia/Ukraine
- China & Taiwan



- While overall impact has historically been immaterial, some areas of economic stress include the decline in shipping through the Suez Canal.

## SHIPPING THROUGH THE SUEZ CANAL DROPPED OVER 25% FROM PEAK IN TWO WEEKS

Suez Canal Daily Transit Calls of Cargo and Tanker Ships



Data source: IMF; Data as of 01/25/2024

## RECESSIONS KILL U.S. PRESIDENCIES

U.S. Recessions Versus Re-Election Results

No Recession Two Years Before Re-Election		
President	Recession?	Re-Elected?
Obama	No	✓
W. Bush	No	✓
Clinton	No	✓
Reagan	No	✓
Nixon	No	✓
LBJ	No	✓
Eisenhower	No	✓
Truman	No	✓
FDR	No	✓
FDR	No	✓
FDR	No	✓
Wilson	No	✓

Recession Two Years Before Re-Election		
President	Recession?	Re-Elected?
H.W. Bush	Yes	✗
Carter	Yes	✗
Ford	Yes	✗
Hoover	Yes	✗
Coolidge	Yes	✓
Taft	Yes	✗
Trump	Yes	✗

Data sources: Strategas and Bruce Mehlman



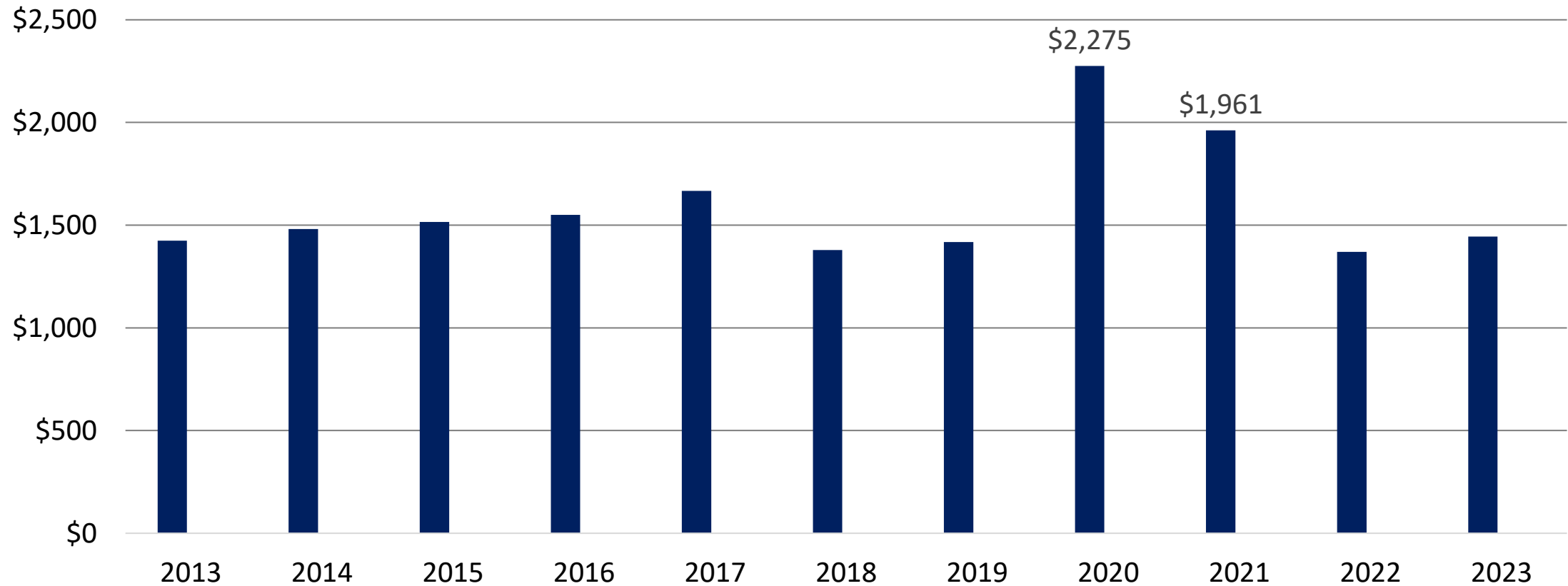
# RISKS

Capital  
Markets



## U.S. INVESTMENT GRADE & HIGH YIELD CORPORATE BOND ISSUANCE (\$BN)

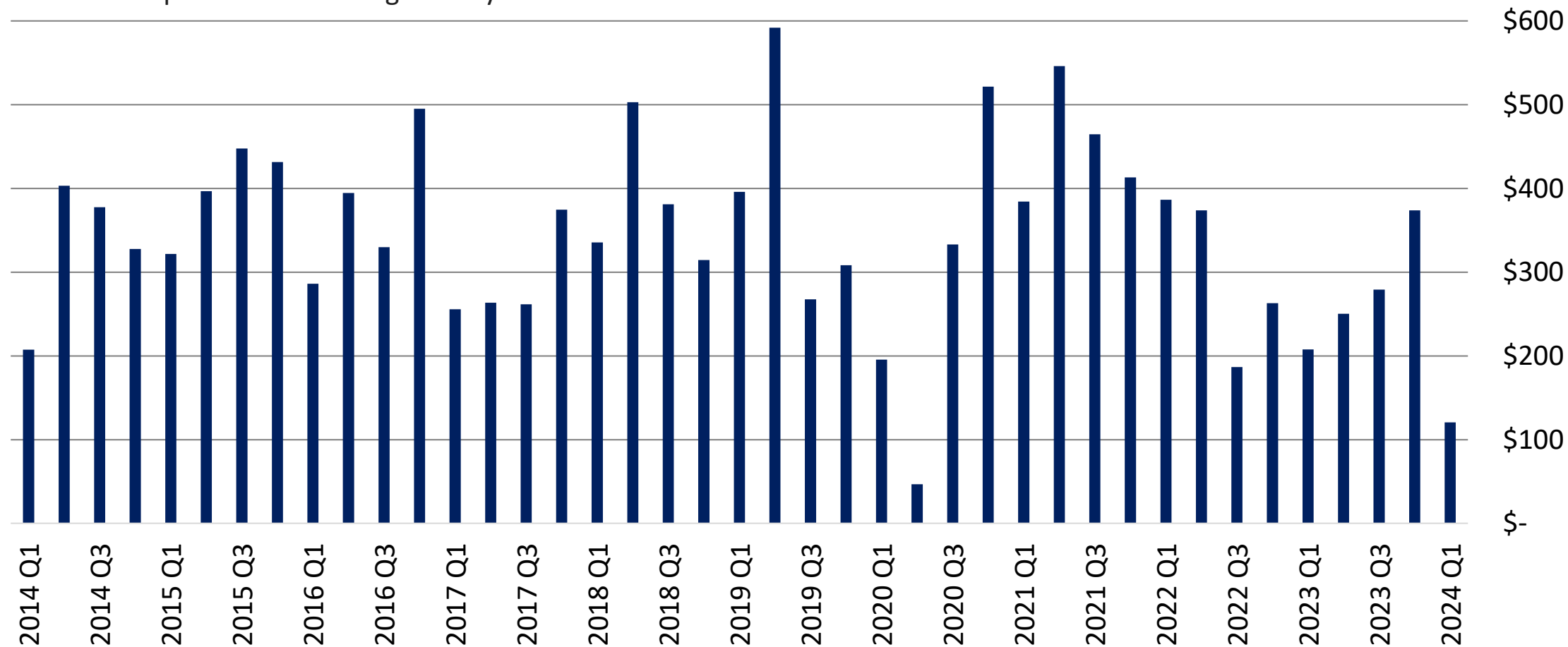
January 1 – December 31



Data source: Securities Industry and Financial Markets Association (SIFMA)

**U.S. QUARTERLY M&A DEAL VOLUMES (\$BN)**

Based on Completed and Pending Activity



Data source: Bloomberg, L.P.; Data as of 1/24/2024

A person in a grey long-sleeved shirt and dark pants stands with their back to the camera in a long, brightly lit hallway. The hallway is lined with numerous closed doors on both sides. Above each door is a glowing red 'EXIT' sign. The perspective is from behind the person, looking down the length of the hallway towards a vanishing point. The lighting is warm and comes from recessed ceiling lights, creating a sense of depth and repetition.

# Private Equity Can't Find an Open Exit Door



## Opportunities In Markets



## Mild:

- There is an Alternative (bye T.I.N.A.)
- Diversification (& the Mag 7)



## Medium:

- Private Markets
- Private Debt & Capital Solutions



## Spicy:

- Innovation & Biotech
- Small Cap



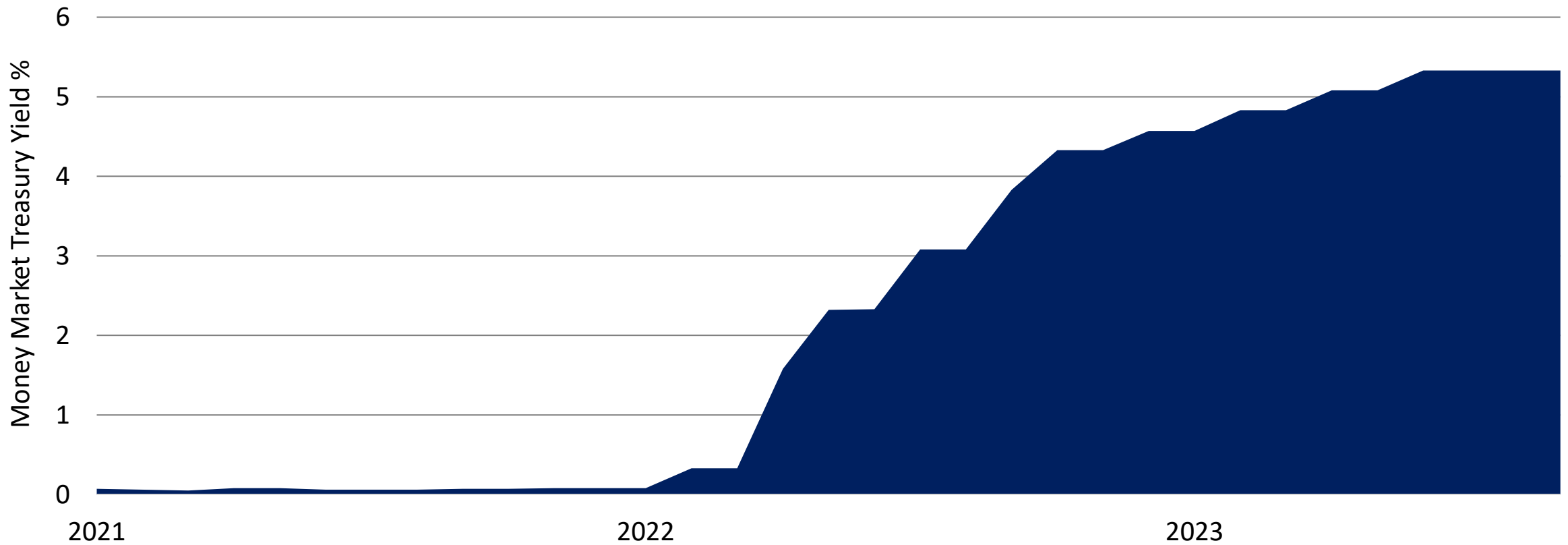
## Too Hot To Handle?

- China





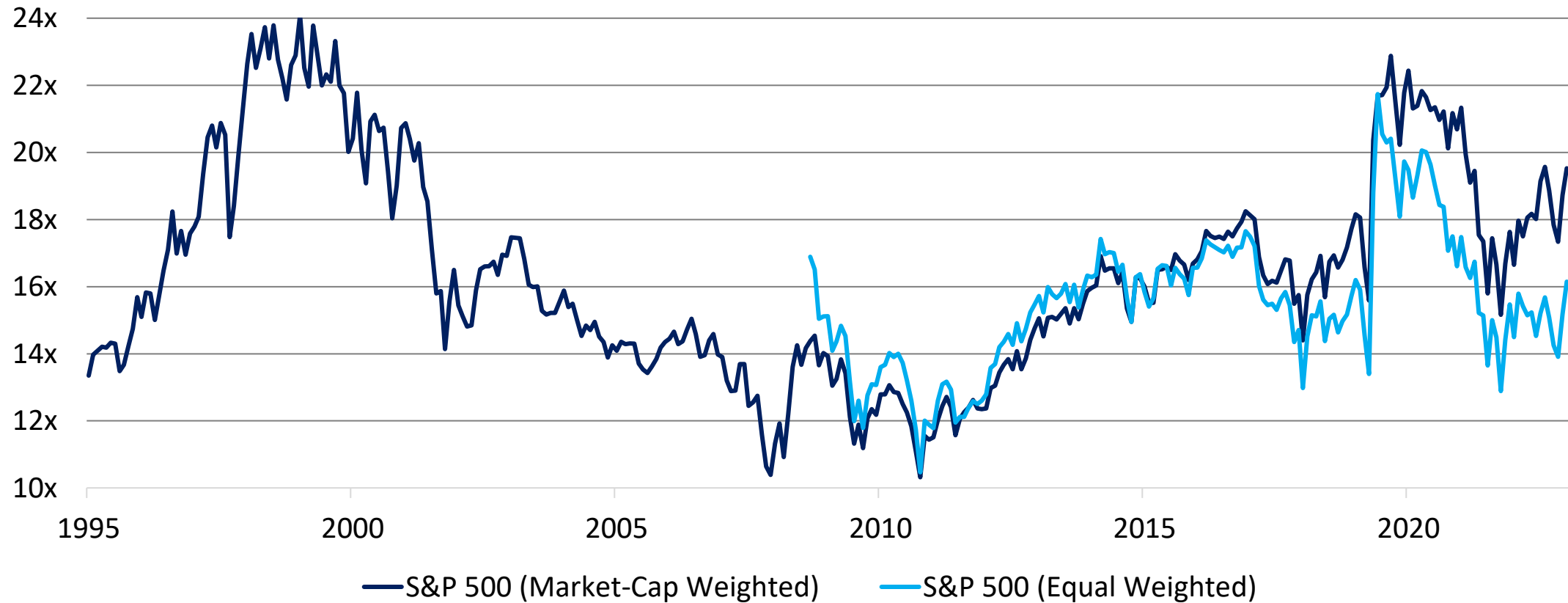
## HOLDING CASH IS NO LONGER A LOSING PROPOSITION U.S. Treasury Money Market Yield



Data source: Federal Deposit Insurance Corporation, Data as of 12/31/2023



## S&P 500 VALUATIONS Forward P/E Multiples



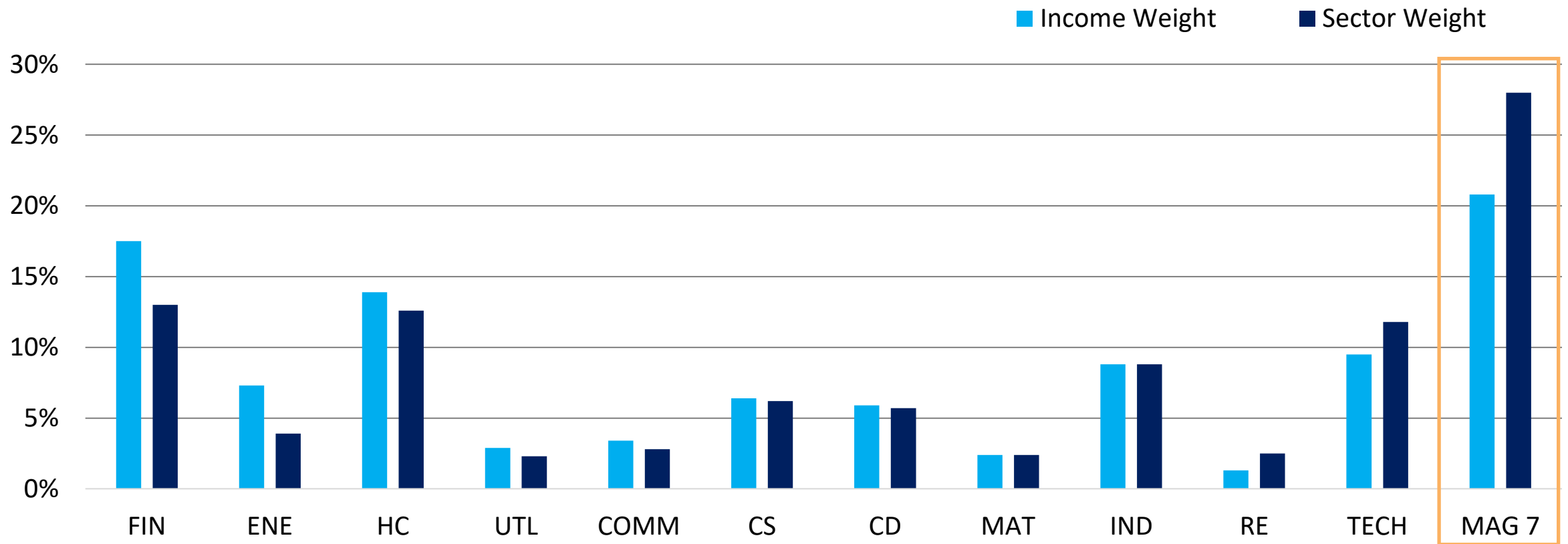
Data source: FactSet. As of 12/31/2023





## MAGNIFICENT 7 HAS A MUCH LARGER CAP WEIGHT THAN INCOME CONTRIBUTION

S&P 500 Next 12-Months Net Income Weight vs. Sector Weight, Magnificent 7 as a Unique Sector Excluded from the Others

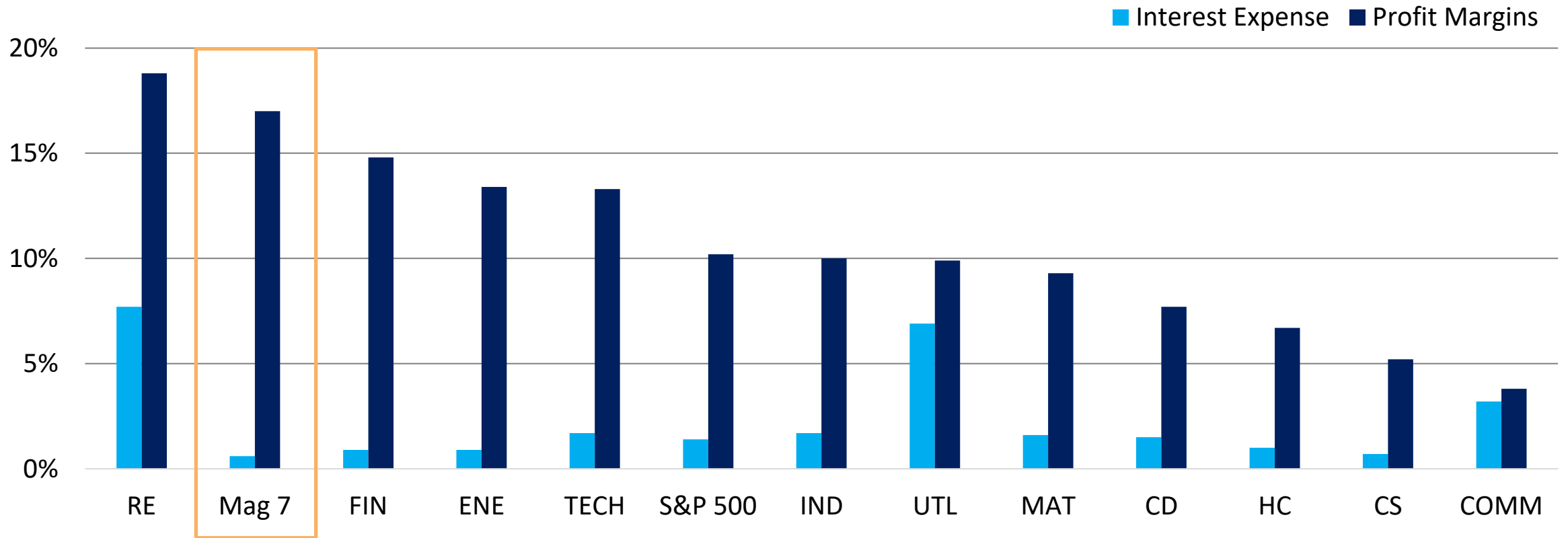


Data sources: Standard & Poor's, FactSet, and Strategas



**THE MAGNIFICENT SEVEN IS HIGHLY PROFITABLE**

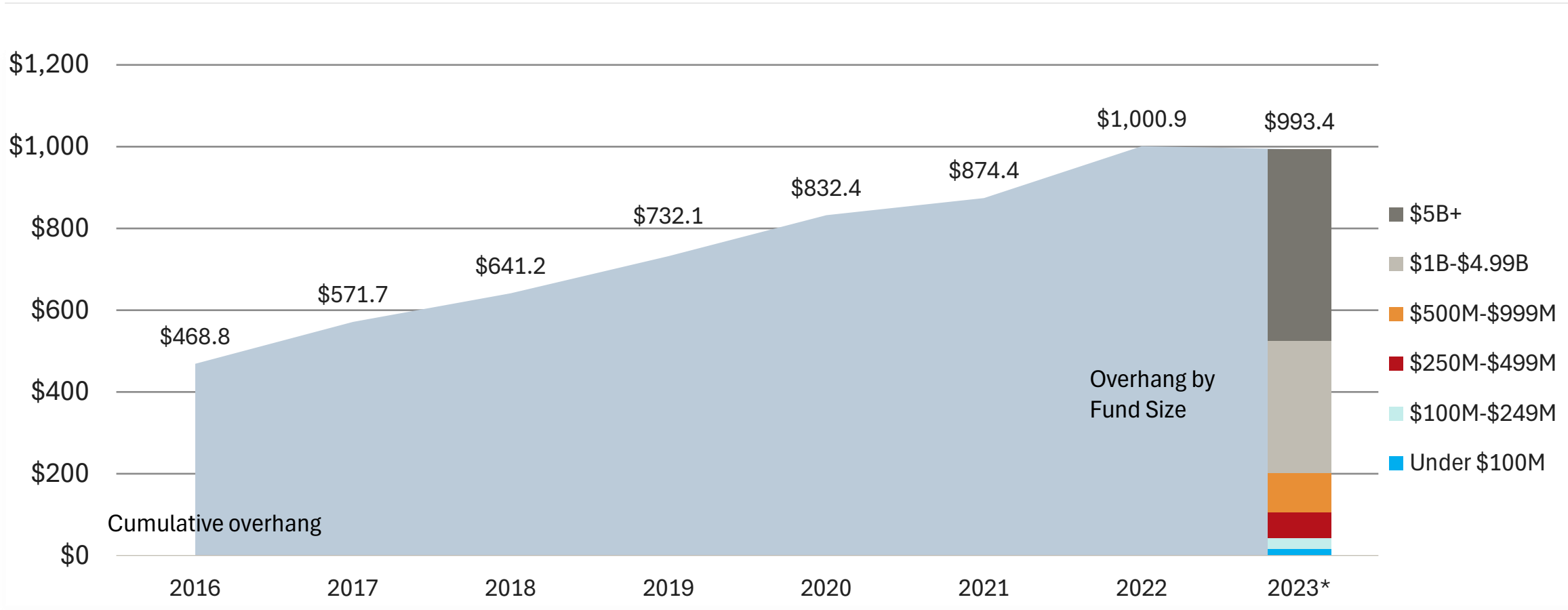
Profit Margins and Interest Expense as a Percentage of Revenue, Magnificent 7 as a Unique Sector Excluded from the Others



Data sources: Standard & Poor's, FactSet, and Strategas; Data as of 12/31/2023



**DRY POWDER REMAINS AT ELEVATED LEVELS WITH NEARLY HALF IN FUNDS OVER \$5.0 BILLION**  
As of June 30, 2023



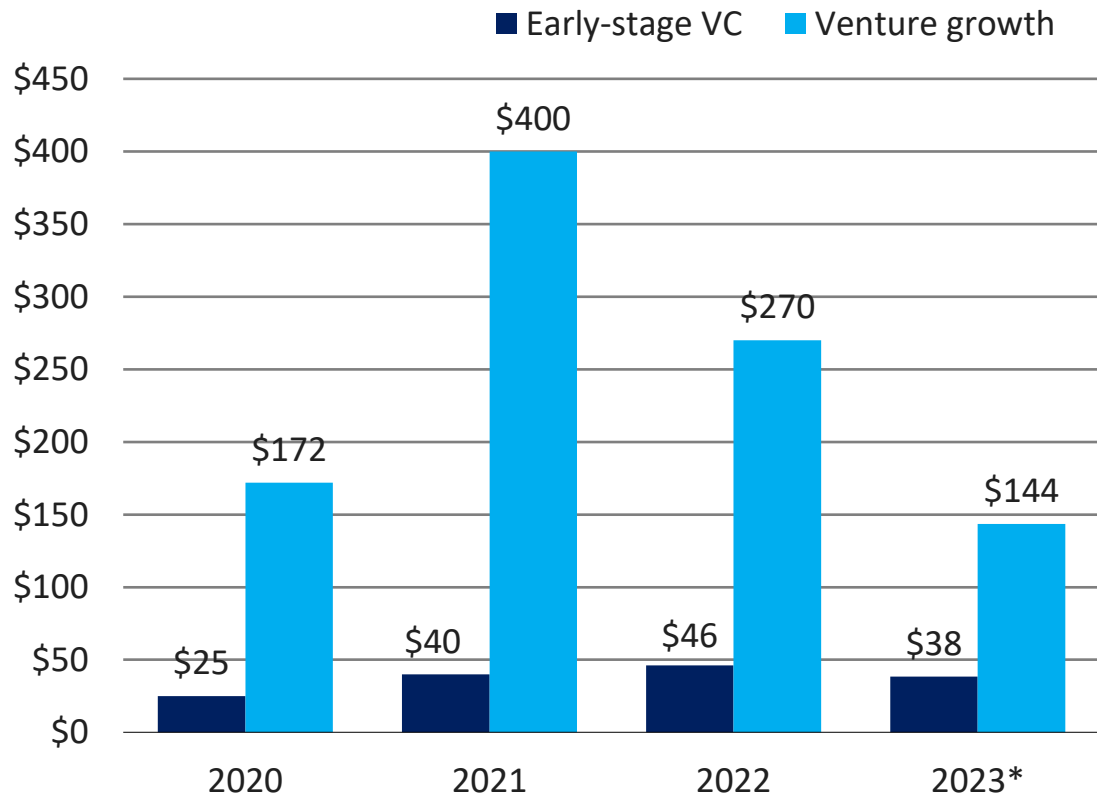
Data source: Pitchbook Private Equity Breakdown 4Q 2023



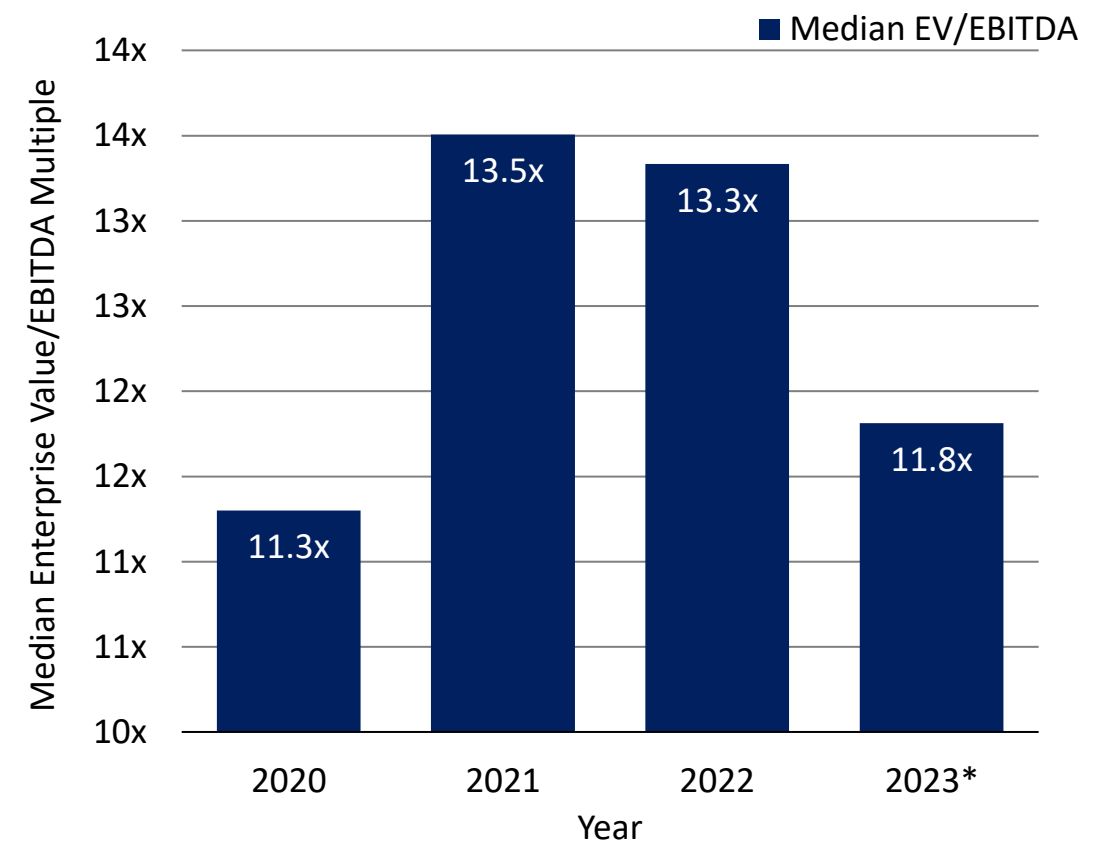
**TIME IS  
TICKING**  
Opportunities  
to exit to larger  
sponsors



## MEDIAN U.S. VC PRE-MONEY VALUATIONS RETURNED TO PRE-COVID LEVELS



## MEDIAN VALUATION MULTIPLES FELL TWO CONSECUTIVE YEARS

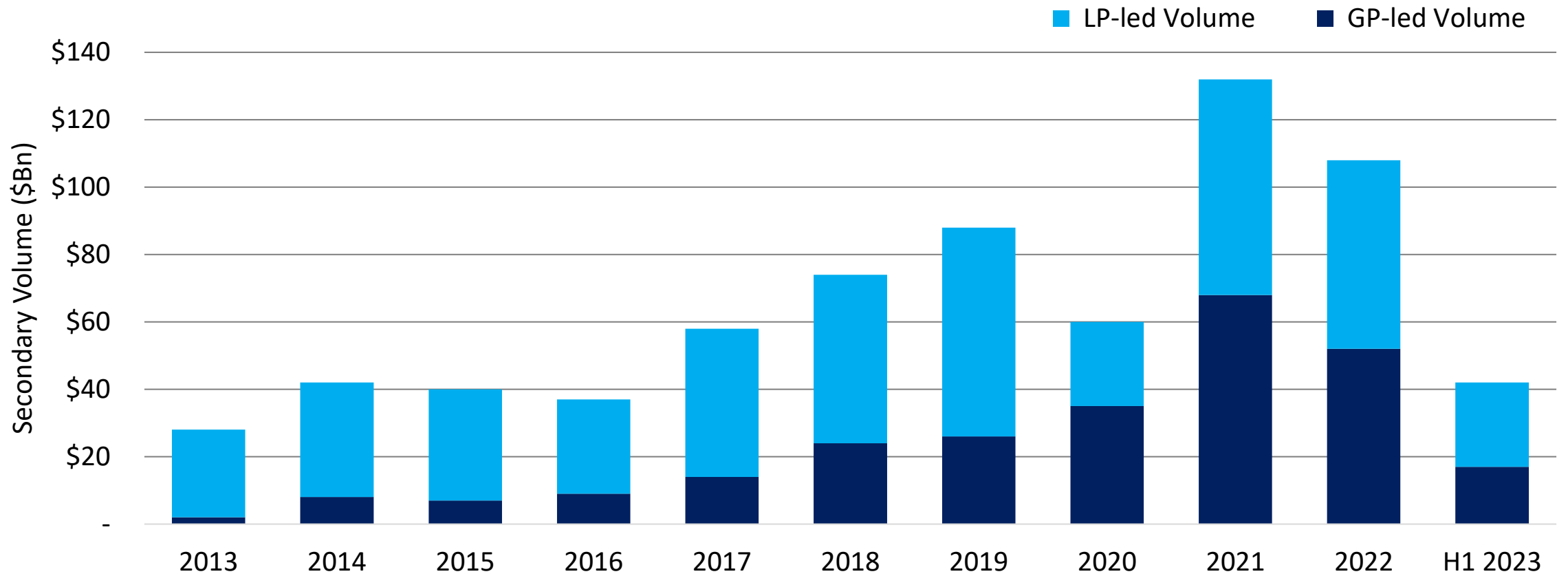


Data sources: Pitchbook/NVCA Venture Monitor and Pitchbook Private Equity Breakdown. \*4Q 2023.



## SECONDARIES HAVE GROWN IN IMPORTANCE TO THE PRIVATE MARKETS

Secondary Volume by Year, \$Billions, as of June 30, 2023

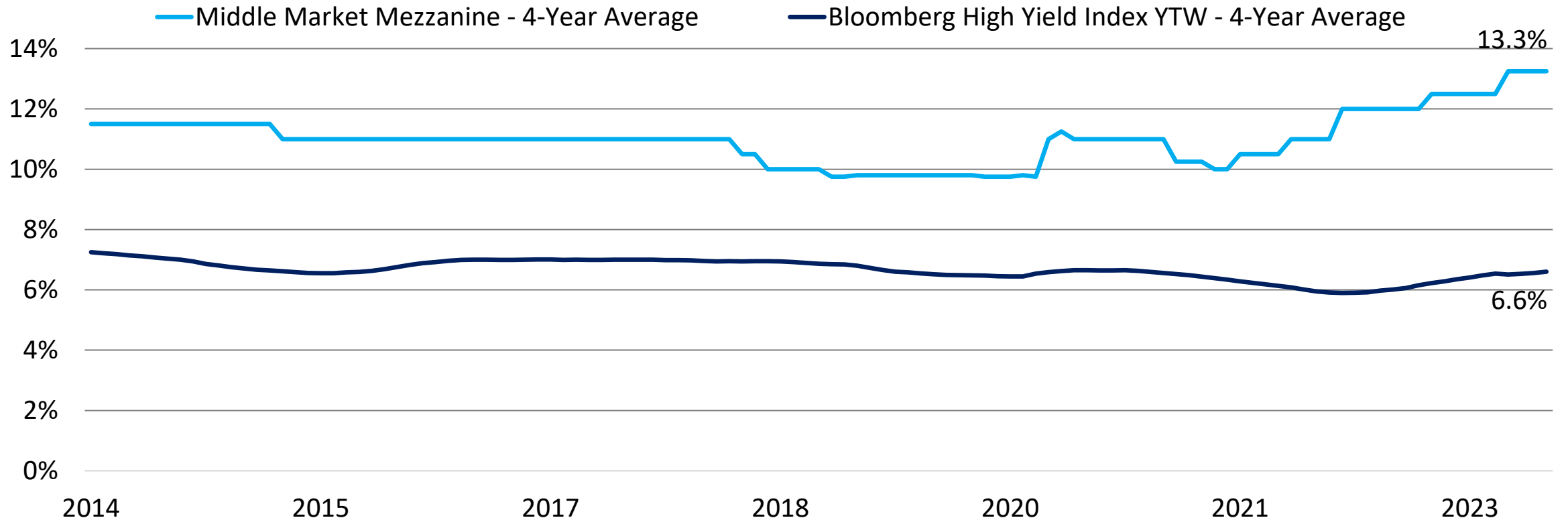


Data source: Pitchbook



## ILLIQUID CREDIT RISK (PRIVATE)

Exploit the Persistent Illiquidity Premium; avoid niche areas where “hope” is a catalyst to unlock value



Data sources: FactSet & SPP Capital, as of 7/31/2023



## REAL ESTATE DEBT



Opportunity to  
fix broken  
things?





## DOES INNOVATION WARRANT A PREMIUM?

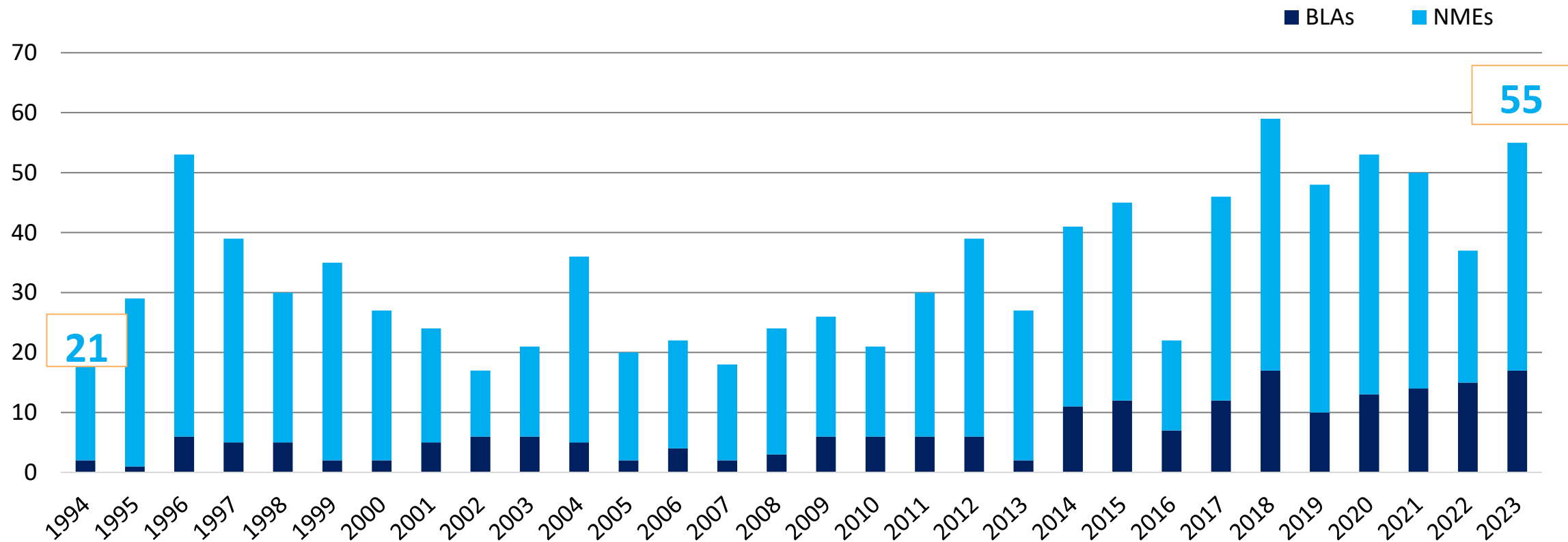
Software Monetization Opportunity

	Base Cost (Per Seat Per Month)	Base + AI (Per Seat Per Month)	AI Uplift (% Increase)
 Microsoft 365	\$35	\$65	85%
 GitHub	\$20	\$40	100%
 salesforce	\$150	\$200	33%
 Notion	\$8	\$18	125%
 servicenow	Pro	Pro Plus	60%

Data source: Company filings and websites



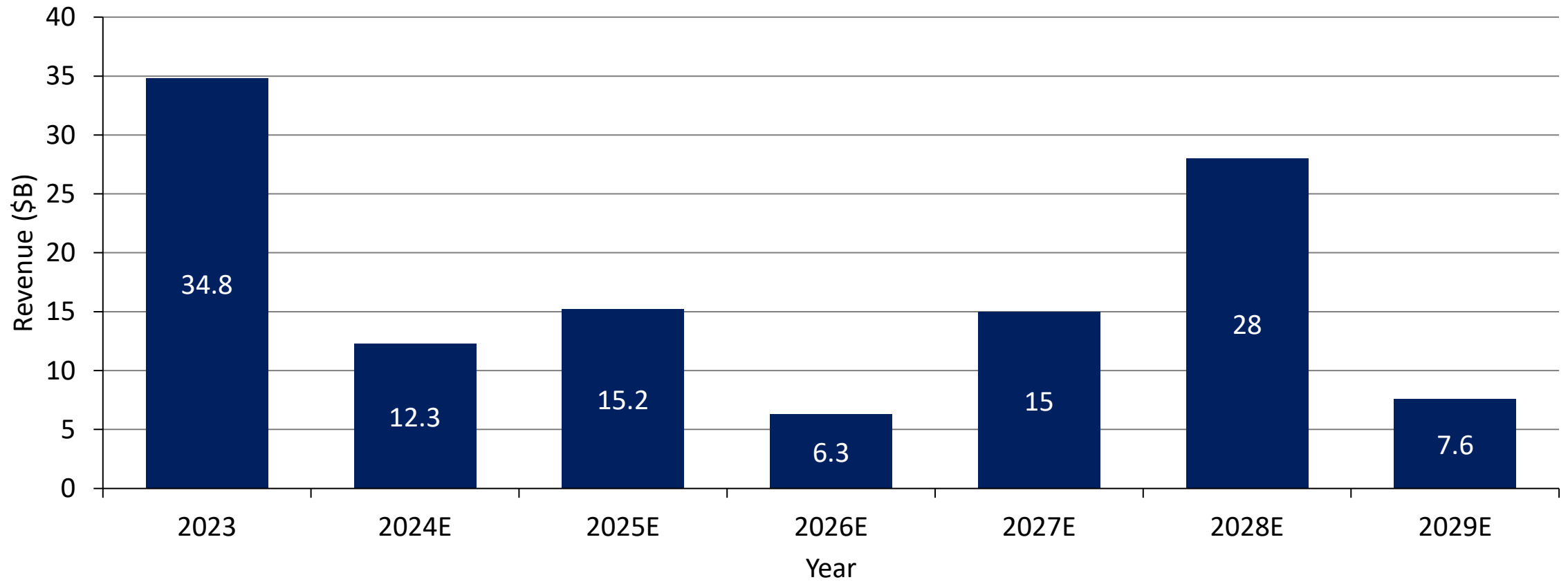
## FDA APPROVES THE SECOND HIGHEST COUNT OF THERAPEUTICS IN 2023 COMPARED TO THE PAST 30-YEARS



NME = New Molecular Entities; BLA = Biologics License Applications



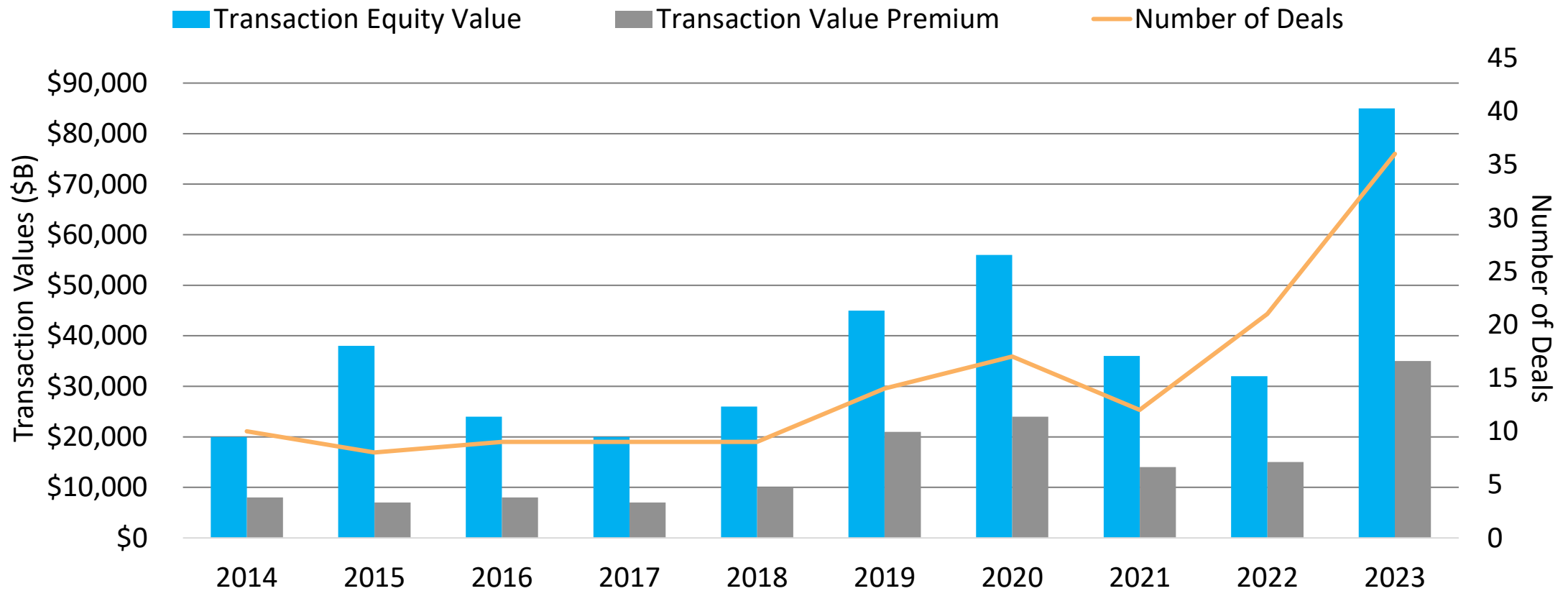
## AT-RISK ANNUAL U.S. REVENUE OF NOTABLE DRUGS IN EXPECTED LOSS OF EXCLUSIVITY (LoE) YEAR (\$B, WW)



Data source: Bloomberg, LP, FactSet, and RA Capital; "E" = Estimated for the associated year



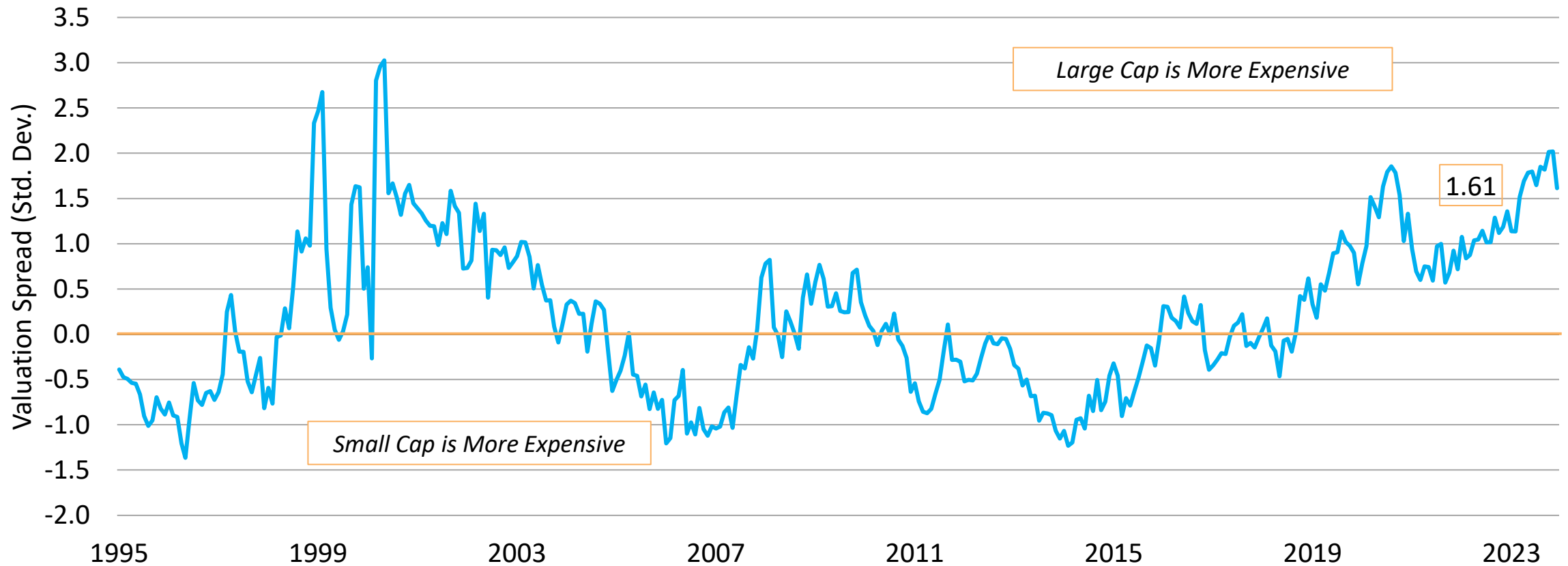
## A RECORD YEAR FOR M&A IN THE DEVELOPMENT-STAGE BIOTECH UNIVERSE



Data source: Bloomberg, LP, FactSet, and RA Capital



## VALUATION SPREAD U.S. Large - U.S. Small

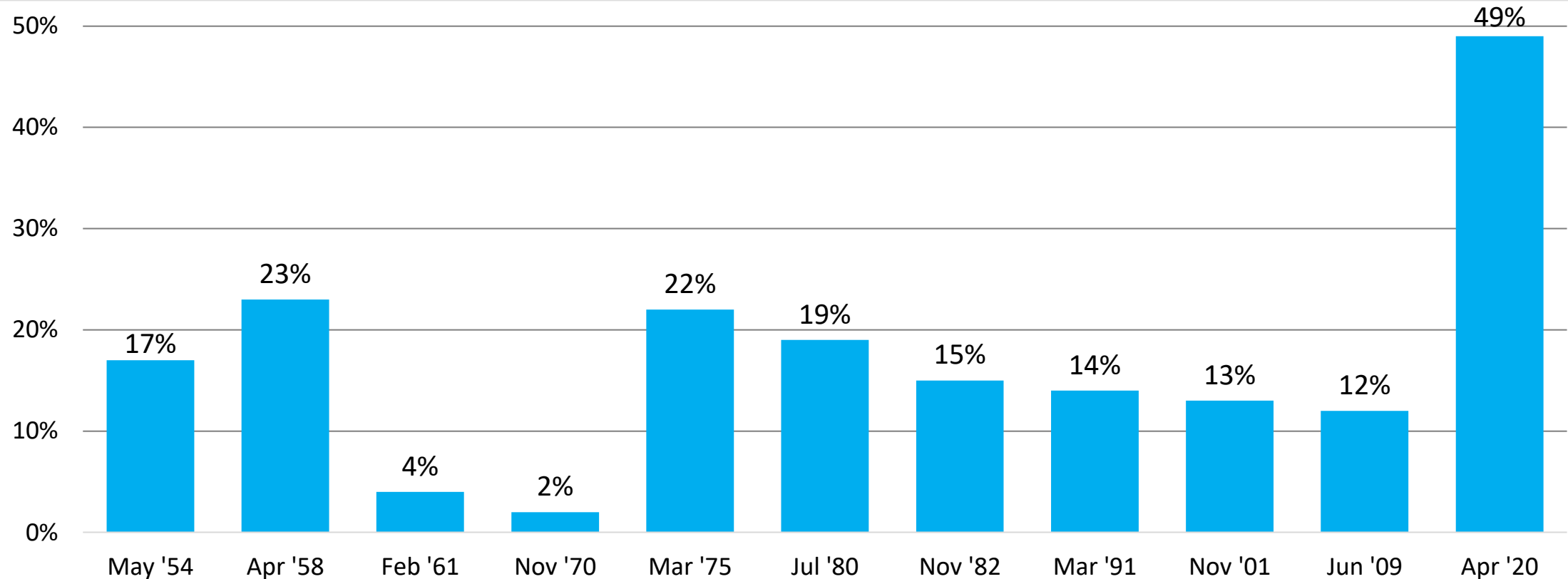


Data sources: Bloomberg, L.P., Russell, FEG; Data as of 12/31/2023



**U.S. SMALL CAP STOCKS HAVE HISTORICALLY OUTPERFORMED DURING RECOVERIES**

U.S. Small vs. Large Factor Outperformance in the 12-months Following Recessions



Data source: Kenneth R. French Data Library. The chart shows active performance of a U.S. small cap (size-sorted bottom 30%) cap-weighted portfolio over a U.S. large cap (size-sorted top 30%) cap-weighted portfolio for the 12-month period following recessions.



**CHINESE EQUITIES HAVE DECLINED MORE THAN 50% FROM THEIR 2021 PEAK**

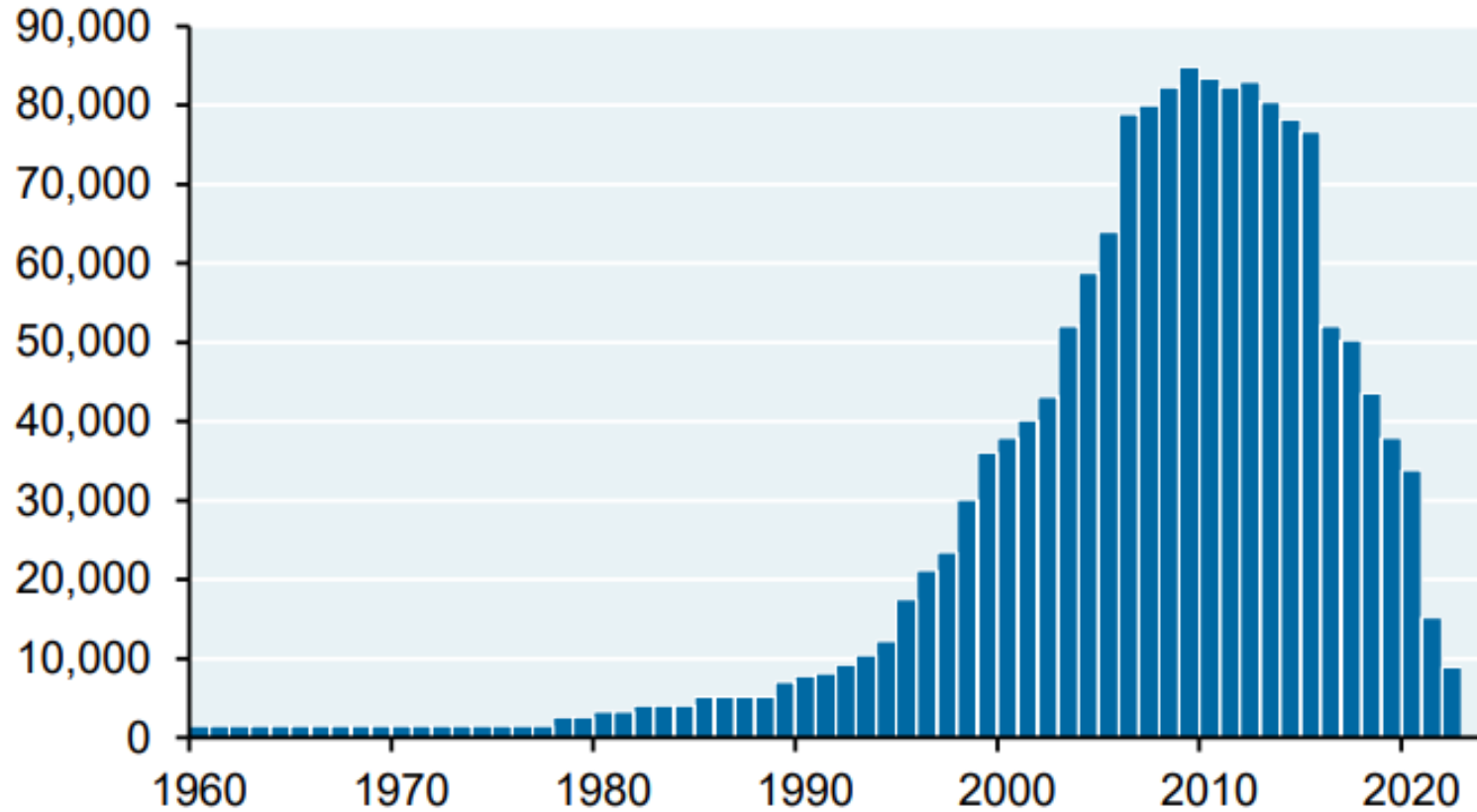


Data source: Bloomberg, L.P.; Data as of 1/10/2024



## CHINA ECONOMIC DISCLOSURES

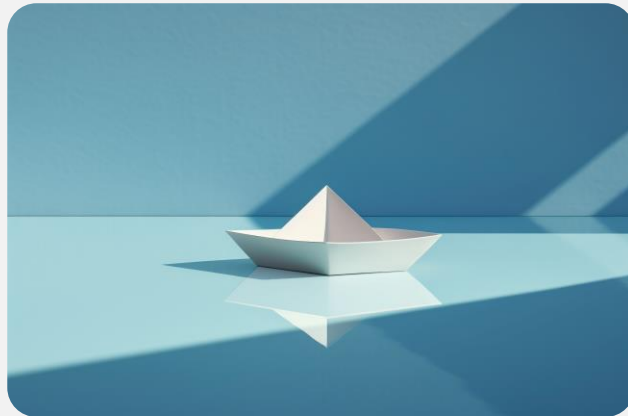
Annual number of economic indicators made available by China's National Bureau of Statistics



Data source: FT, 10/21/2022 based on CEIC/CNBS data



**There are risks...just like always; try to manage them as best you can.**



**Select opportunities exist in pockets, including:**



**Mild**  
Cash  
Diversification  
outside of the Mag 7



**Medium**  
Private Markets  
*(caveat: manager selection is critical)*



**Spicy**  
Innovation & Biotech  
Small Cap



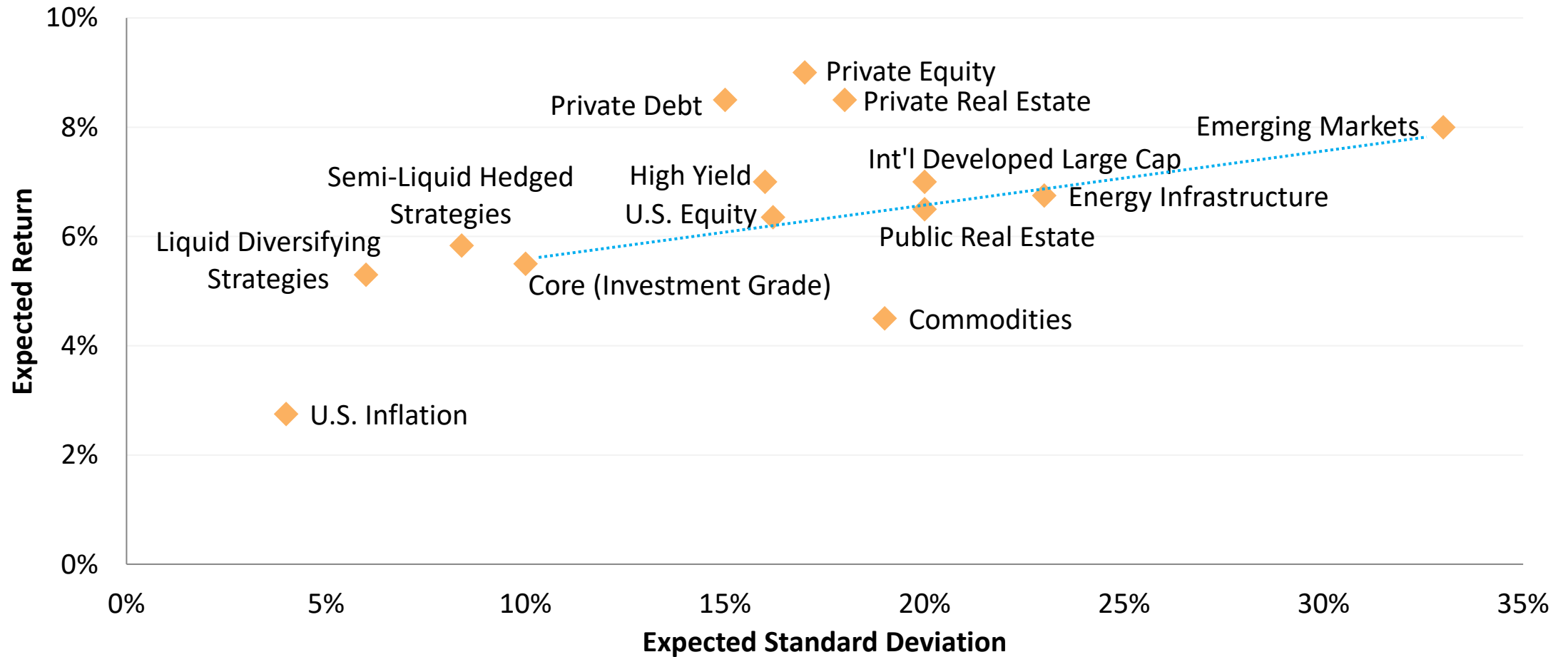
**Too Hot to Handle**  
China



Let's Keep the Focus on the Long-Term  
(Don't Overreact to the Short-Term)

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## FEG 7-10 YEAR CAPITAL MARKET ASSUMPTIONS



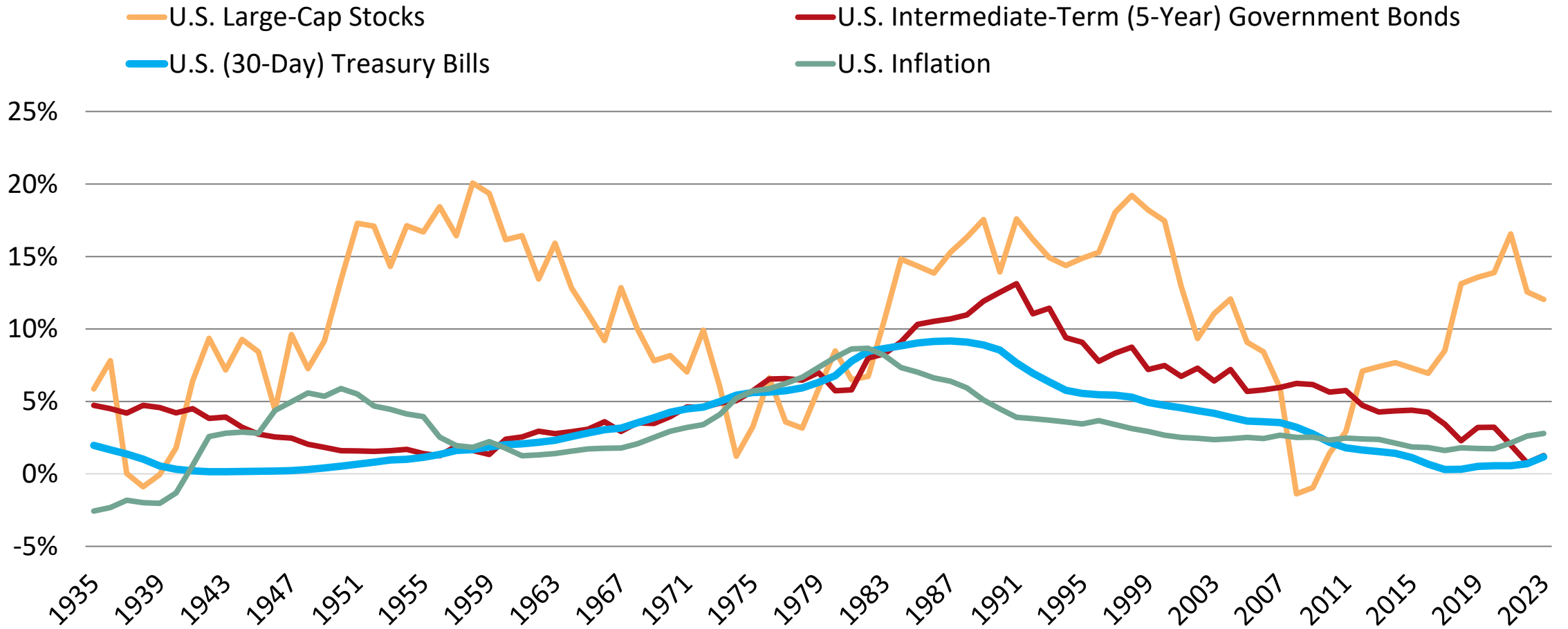
Data source: FEG Data. As of December 2023. FEG Capital Market Assumptions are hypothetical based on asset category. The expected return is the result of a hypothetical allocation of investments represented solely by financial market data, underlying public indices, and FEG expectations in each asset category. The allocation does not include or represent investments made in any specific security within each asset category. Expected returns are presented gross of any fees and expenses. Inflation rate is Core CPI. Please refer to Disclosures for full disclosures.

“ The market’s not a very accommodating machine; **it won’t provide high returns just because you need them.**”

–Peter L. Bernstein,  
Financial Historian

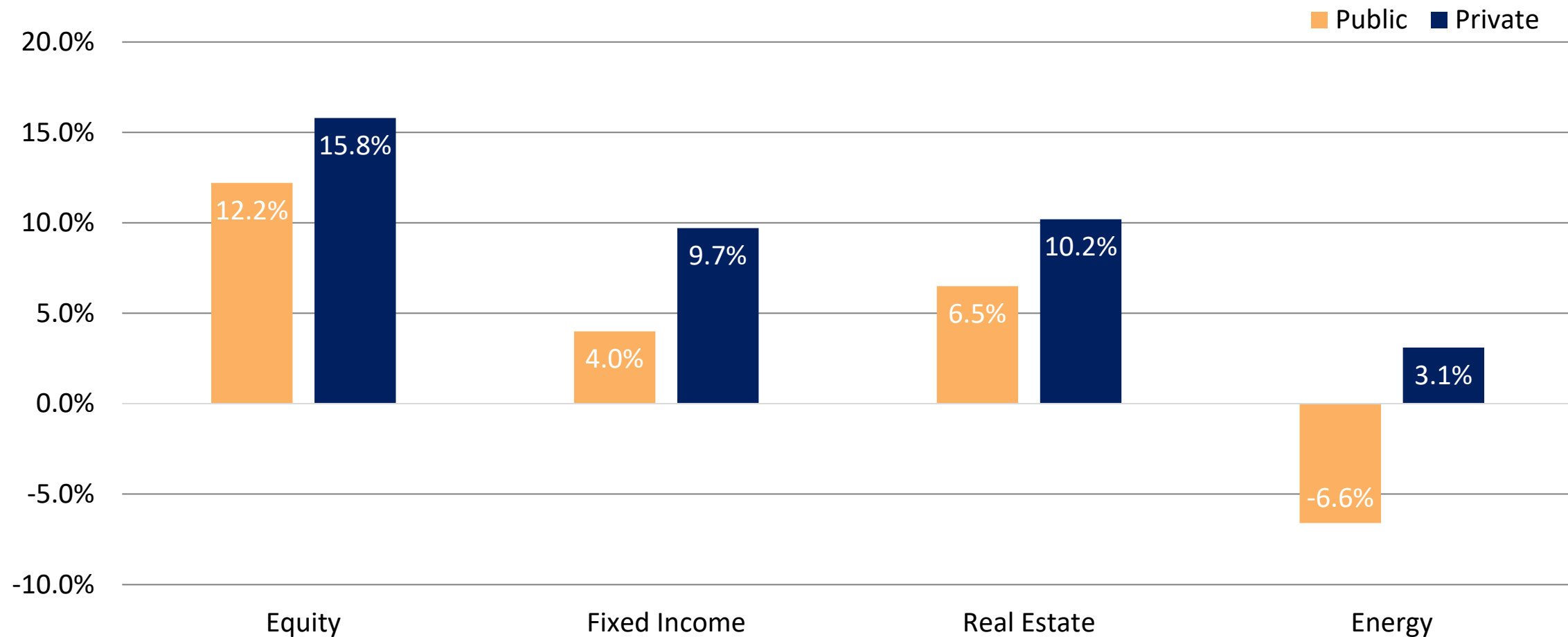


## ROLLING 10-YEAR RETURN



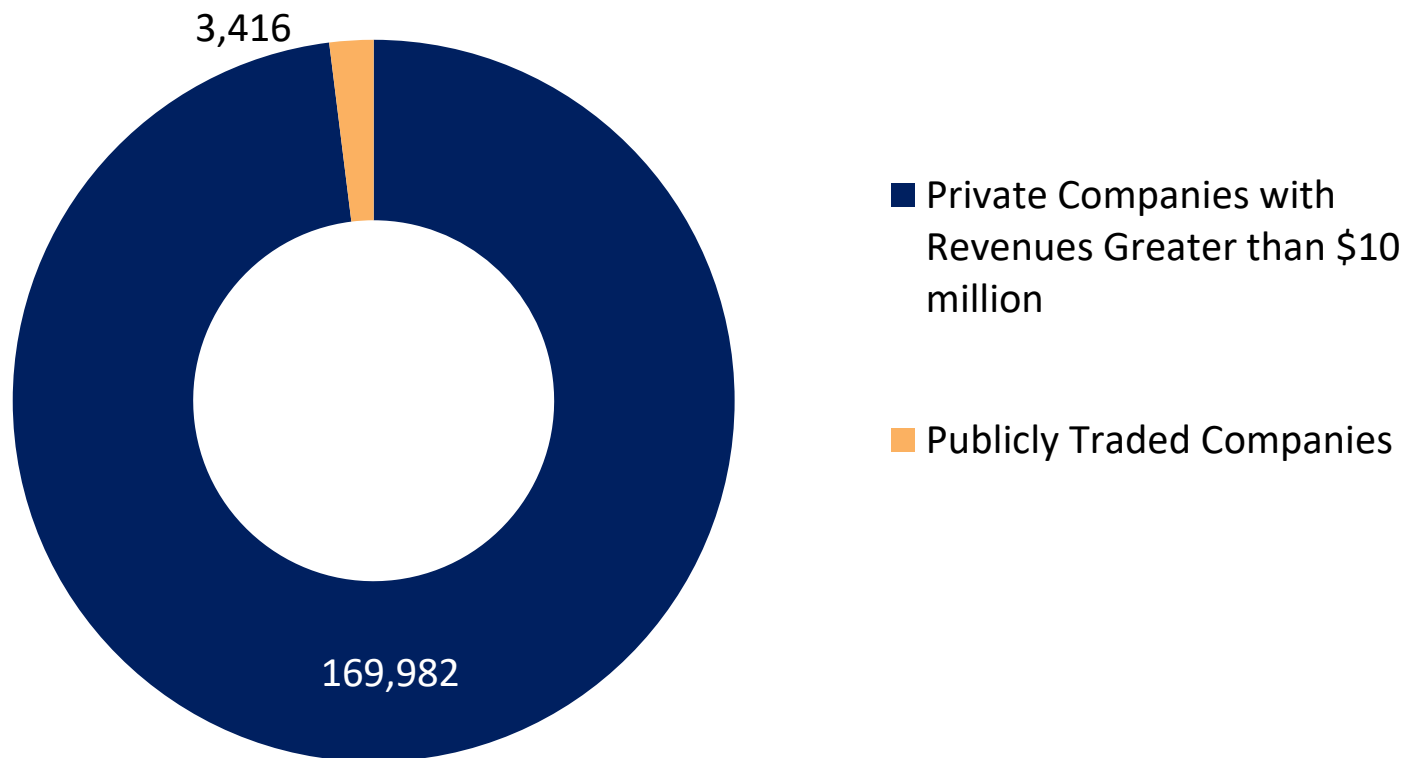
Data sources: Ibbotson, Morningstar Direct; Data as of 12/31/2023

## 10-YEAR PUBLIC VS. PRIVATE RETURNS



Data sources: ThomsonOne, Standard & Poor's; Data as of 3/31/2023. The corresponding benchmarks for each asset class are as follows; Equity (Public): S&P 500 Index, Equity (Private): ThomsonOne Private Equity Index, Fixed Income (Public): Ice ML High Yield Index, Fixed Income (Private): ThomsonOne Private Debt Index, Real Estate (Public): FTSE All Equity NAREIT Index, Real Estate (Private): ThomsonOne Private Real Estate, Energy (Public): S&P Energy Index, Energy (Private): ThomsonOne Private Natural Resource Index.

## INVESTABLE UNIVERSE OF U.S. PUBLIC & PRIVATE COMPANIES



The number of privately held companies with more than \$10 million in revenue is over

**50x**

as many as publicly traded companies.

Data sources: Pitchbook, "CRSP Market Indexes" data as of 12/31/2023; FactSet data as of 12/31/2023



### **Embrace Risk**

Over the long-term, embrace risk in your policy asset allocation.



### **Seek Alignment**

Ensure your policy asset allocation is aligned with your risk/return objectives.



### **Refine Where You Take Risk**

Consider if you are adequately getting compensated to take risk over time.





# Upcoming Releases & Events

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## LATEST EPISODE

### WHEN DOVES CRY?: 2024 MARKET OUTLOOK

*Featuring Jason Trennert, Chairman &  
Chief Investment Strategist of Strategas*

## RECENT EPISODES



[Exiting the Narrative Matrix: AI, Storytelling, & Markets with Ben Hunt](#)



[All The Waves You Cannot See with David Grain](#)



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# 2024 FEG COMMUNITY FOUNDATION SURVEY

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**Submissions Due: February 23**

Survey Topics Include:

- Asset Allocation and Spending Policy
- Responsive Investing
- Enterprise Trends



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# FEG HOCKEY CLASSIC

April 3-4, 2024



Scan or visit the link below to  
save the date

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Q&A

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## FEG'S THOUGHT-LEADERSHIP

### Research Review

*Monthly economic commentary and in-depth asset class review*

### Private Capital Quarterly Review

*Quarterly focus paper on current investment topic of significance and commentary on alternative investments*

### Market Commentary

*Quarterly review of overall market landscape*

### FEG Insight

*Educational focus paper on current investment related topic*

### FEG Insight Bridge Podcast

*Series of discussions between FEG's Head of Research and industry leaders*

### FEG Events

*Information on upcoming events, including webinars, lunch sessions, regional events, and the FEG Investment Forum*

### FEG Surveys and Studies

*Invitations and reports related to FEG's proprietary surveys and studies, such as the Community Foundation Survey*

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FEG Capital Market Assumptions are the result of hypothetical allocations constructed under various assumptions of various constraints and liquidity needs, and allocations may not be appropriate for all investment objectives. Given the complex risk-reward trade-offs involved, we advise clients to rely on judgment as well as quantitative optimization approaches in setting strategic allocations. Exclusive reliance on the above is not advised. This information is not intended as a recommendation to invest in any particular asset class or strategy or as a promise of future performance. Note that these asset class and strategy assumptions are passive only—they do not consider the impact of active management. References to future returns are not promises or even estimates of actual returns client portfolio may achieve. Assumptions, opinions and estimates are provided for illustrative purposes only. They should not be relied upon as recommendations to buy or sell any securities, commodities, derivatives, or financial instruments of any kind. A manager's ability to achieve similar outcomes is subject to risk factors over which the manager may have no or limited control. Forecasts of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice. Both past performance and yield may not be a reliable guide to future performance. One of the limitations of hypothetical allocation results is that they are generally prepared with the benefit of hindsight.

The Capital Market Assumptions shown are a hypothetical allocation of broad asset categories. The expected return is the result of a hypothetical allocation of investments represented solely by financial market data, underlying public indices, and FEG expectations in each asset category. The allocation does not include or represent investments made in any specific security within each asset category. As such, the expected return of the underlying indices is by no means a projection of a proposed or actual portfolio or indicative of results achieved by any securities. Additionally, an investor cannot directly invest in any index. The asset allocation is constructed under the assumption of various constraints and liquidity needs, as such allocations may not be appropriate for all investment objectives. Expected returns are presented gross of any fees and expenses.

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Past Performance is not indicative of future results.

Index performance results do not represent any portfolio returns. An investor cannot invest directly in a presented index, as an investment vehicle replicating an index would be required. An index does not charge management fees or brokerage expenses, and no such fees or expenses were deducted from the performance shown.

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Any return expectations provided are not intended as, and must not be regarded as, a representation, warranty or predication that the investment will achieve any particular rate of return over any particular time-period or those investors will not incur losses.

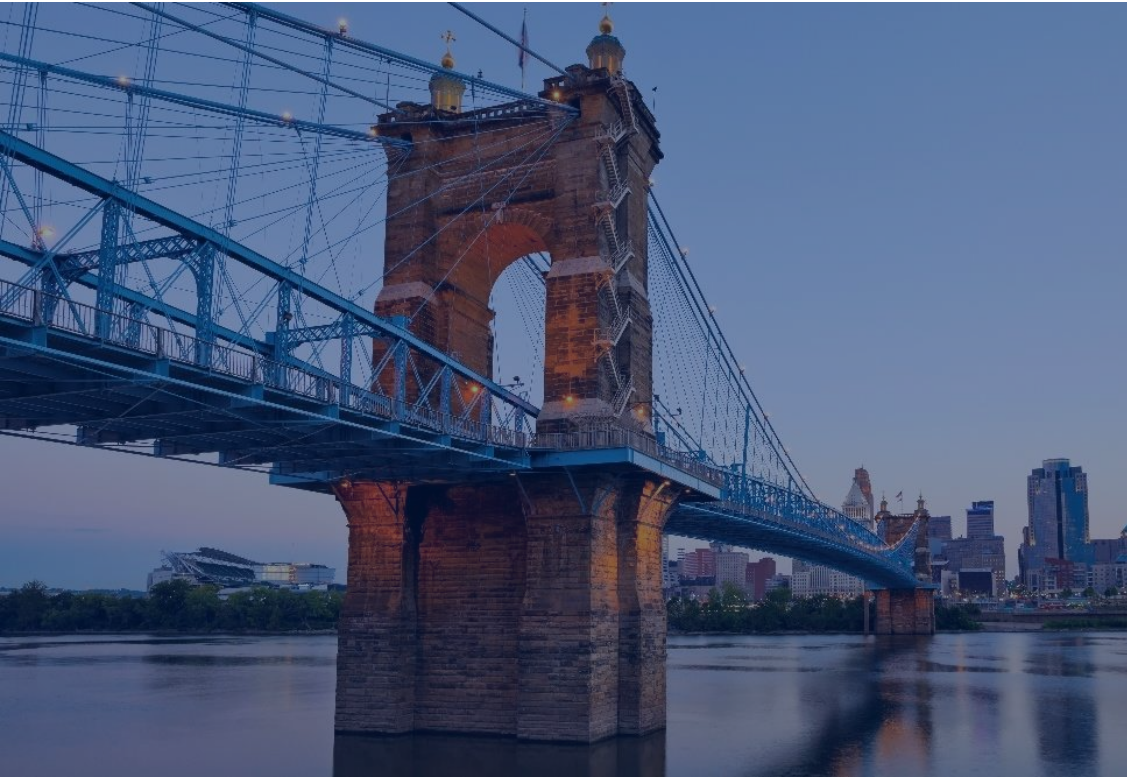
Standard deviation is a measure of the dispersion of a set of data from its mean.

The S&P 500 Index is capitalization-weighted index of 500 stocks. The S&P 500 Index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

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