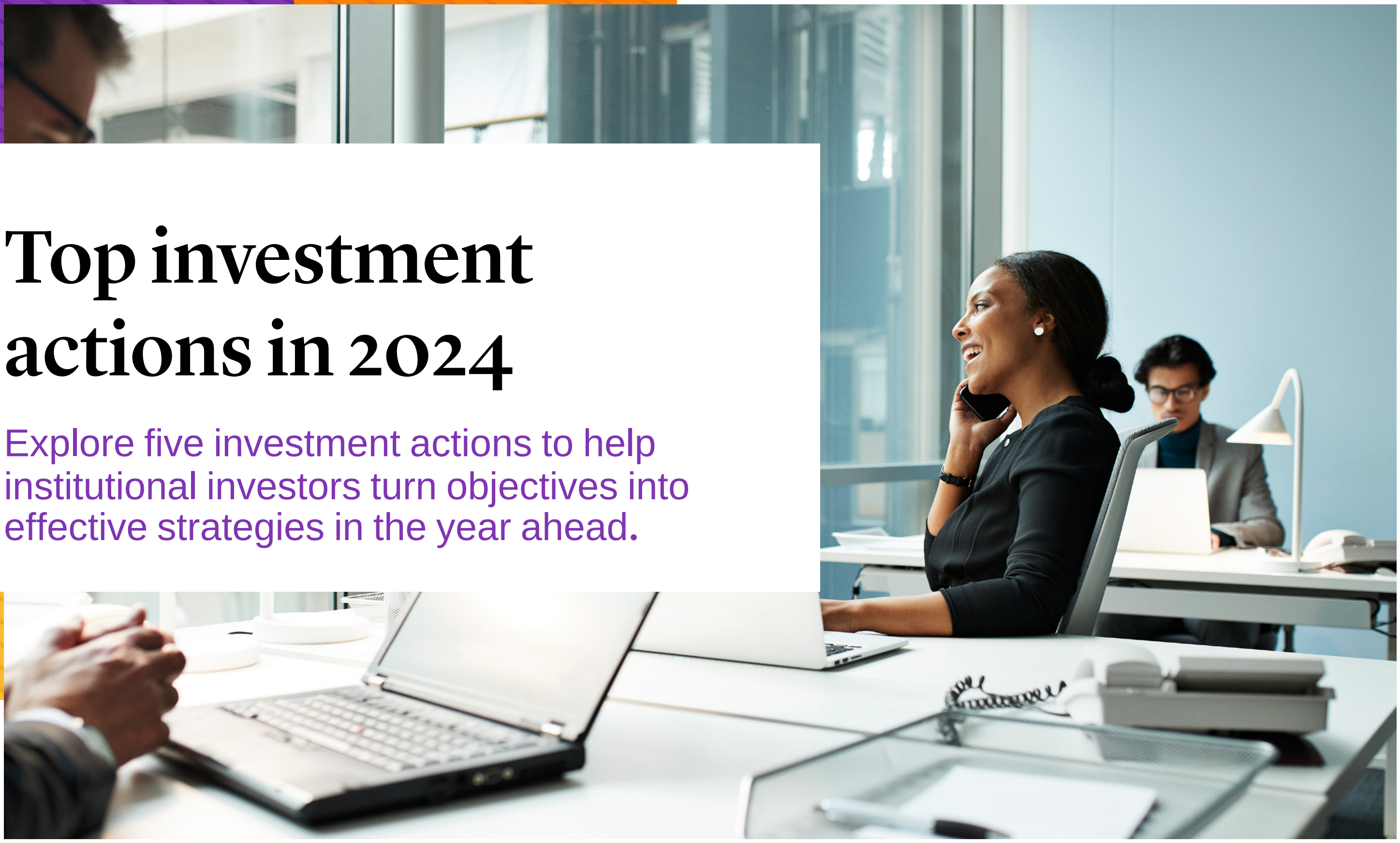
Top investment actions in 2024

Explore five investment actions to help institutional investors turn objectives into effective strategies in the year ahead.



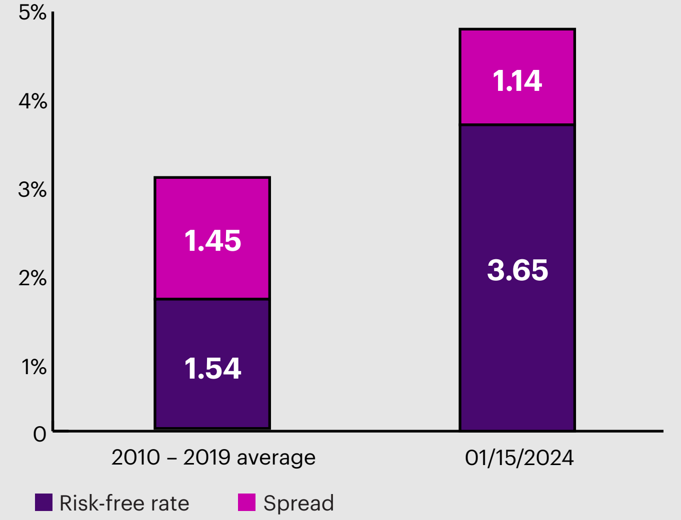
The high volatility experienced in the past year reminded investors of the importance of thoughtful diversification, being cognizant of investments fees, and that good governance should always be part of any investment decision.

Our research shows that, while clients remain focused in these areas, most plan to give emphasis to asset allocation, equities and fixed income in 2024. Our findings indicate that the top four long-term priorities that clients are focused on include macroeconomic conditions, fees, organizational design/governance and geopolitics. With these goals in mind, we urge investors to focus on diversifying assets, reevaluating active strategies and prioritizing governance.

1. Focus on income in fixed-income investing

With the market environment characterized by macroeconomic uncertainty, we believe diversification with downside mitigation and uncorrelated sources of income continues to be the best way to maximize the chance of investment success. We expect interest rate volatility to fall this year, which should be supportive of broader fixed-income returns given the starting level of all in yields. In such conditions, a stable return stream is increasingly valuable. As we observe an elevated level of starting yields, average corporate spreads, and modest default expectations, we believe that income will be the primary component of credit returns looking forward.

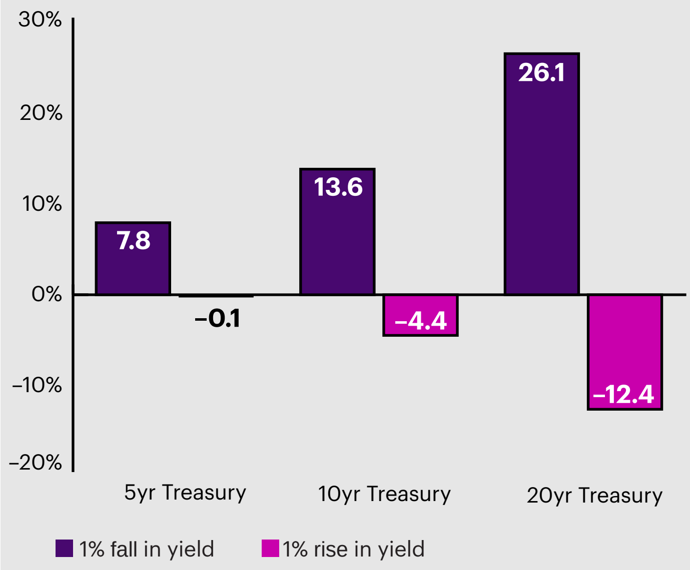
High fixed-income yields due to duration
Global investment-grade corporate bond index, yield to maturity



Sources: ICE BoAML, FactSet, WTW (2010 – 2019 average, 1/15/2024)

Higher carry, medium-duration strategies where sensitivity to interest rate movements is moderate and starting yields are elevated look especially attractive.

Government bonds have high yields and an attractive skew of returns
Hypothetical 1-year return from U.S. Treasuries assuming a 1% rise and fall in yield



Sources: FactSet, WTW
Note: Bond returns assume a zero-coupon bond and parallel shifts in the yield curve. Yield as of 1/16/2024

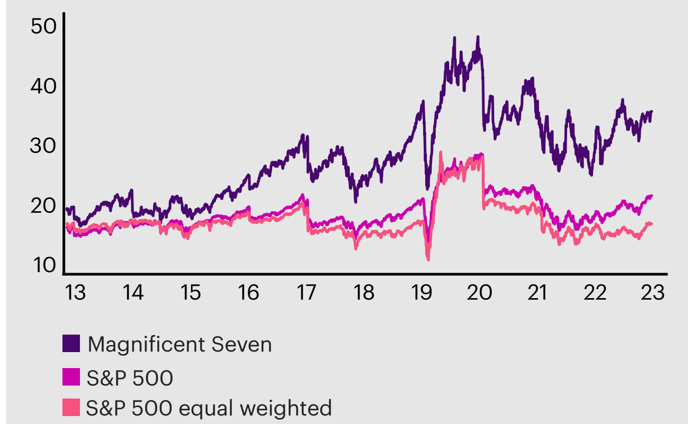
For those investors willing and able to go the extra mile, private debt continues to offer meaningful return pickup and strong value for risk taken. We are finding the most attractive opportunities today in private debt where managers are able to exploit the full breadth of markets and flex capital toward areas with the most attractive risk-adjusted returns; read more about it in our paper, Private debt — opportunity in uncertainty.

Skilled active managers may be able to find companies that can navigate a tricky environment.

2. Spotlight active management

In this recent article, 6 reasons why now could be the era of the active investment manager we outlined six reasons why we are excited about active management in 2024 and beyond. Higher inflation and slowing economies create stock market winners and losers. Skilled active managers may be able to find companies that can navigate a tricky environment. Dispersion in valuations underscores the ability for active managers to find cheap companies that have a chance of performing strongly over the long term while avoiding those that appear overvalued and expensive. Global equity markets experienced material concentration over the past decade. Today, MSCI World Index's largest stock holdings outstrip the largest country allocations outside of the U.S., including three of the world's largest 10 economies. Additionally, the top seven companies in the S&P 500 index significantly outperformed the overall market. In these conditions, the value of skilled active management is key to managing the risk of a reversal in those concentrated names.

Economic divergence, fundamental factors (e.g., artificial intelligence) and valuations may create new stock market winners and losers
1-year forward price/earnings ratio



Sources: FactSet, WTW (1/16/2014 – 1/16/2024)

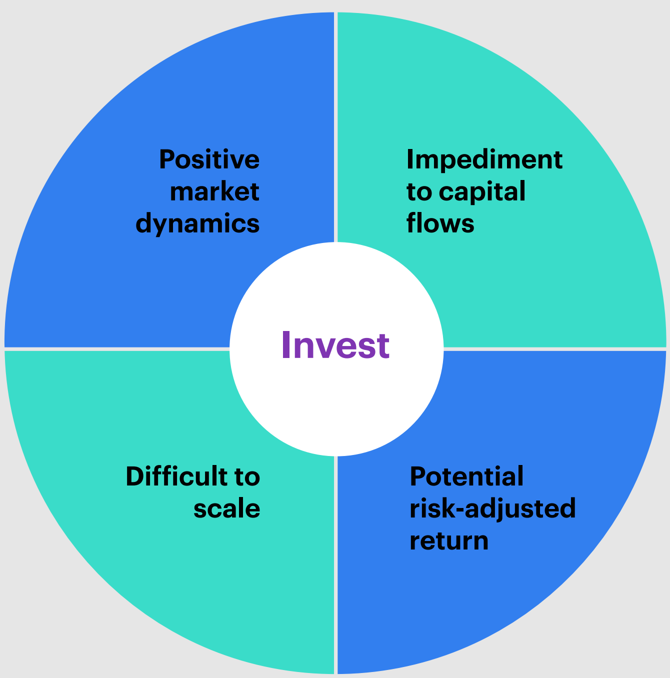
Similarly, this macroeconomic environment can create opportunities in the hedge fund space. Hedge funds tend to generate attractive alpha-driven returns during periods of higher macro volatility and asset class return dispersion. To help investors navigate hedge funds, we considered the validity of five commonly held beliefs in a recent publication, Five myths of hedge fund investing. In this piece, we showed that even though hedge funds can be opaque and expensive, they also have an opportunity to add alpha and reduce volatility of the overall portfolio if approached correctly. We believe the key is to focus on a total portfolio and select uncorrelated diversifying alpha sources through careful selection of highest conviction strategies and managers.

3. Emphasize niche strategies in real assets

While traditional sectors such as office and retail continue to face re-pricing and liquidity headwinds (see our recent paper, "Out of office: The status of the U.S. office property sector amid bank turmoil and remote work"), other sectors are thriving with continued opportunity for growth. In our view, the days of buying diversified ODCE-oriented funds are long gone, and investors are better off expanding the real asset opportunity set beyond real estate into other opportunities such as infrastructure and natural resources. Additionally, utilizing specialists and focusing on sectors with strong thematic tailwinds and inelastic demand profiles can potentially provide a more stable return profile. At WTW we continue to focus on trends in e-commerce, technology, changing demographics, remote working habits, aging and the climate transition. We have historically expressed these views through such strategies as last-mile logistics (last step of delivery process from distribution center to the end user), single-family homes, data infrastructure, life sciences and medical office, and senior housing.

We are also proponents of expanding the traditional focus on real estate to broader real assets, meaning infrastructure and natural resources as well. Within infrastructure, we emphasize a mix of traditional infrastructure, social infrastructure and renewable energy.

Select uncorrelated diversifying alpha sources in real assets
Value-seeking themes



4. Have a sustainability strategy for your investments

More asset owners are incorporating an explicit climate and/or net zero strategy into their approach, whether out of belief or necessity. We are strong believers that climate integration is a financial proposition first and foremost, with our research supporting better risk-adjusted return potential.

We have supported numerous clients and investment managers across the globe in designing, implementing and enhancing their own sustainability policies — across stakeholder engagement,objective setting, journey planning, investment process review, asset allocation integration, risk analysis monitoring,product review, roduct creation, stewardship and more.

If strengthening the long-term outcomes of your investment portfolio is a goal for your organization, we believe that integrating sustainability is a necessity that can no longer be ignored. WTW is an experienced partner that can help you translate your organizational objectives into a sensible and effective approach for your asset pools.

5. Stay on top of governance

We have seen an increasing focus for asset owners on cost, resourcing and succession planning within their investment teams. At the same time, there is a rapidly evolving market landscape (as we noted above) as well as new regulations (e.g., SECURE 2.0) that call for increasing action and dynamism.

This, of course, leads to soul searching and has created continued evolution in the breadth of outsourcing flavors available to sponsors. While asset owners can certainly outsource most everything if they want to, they can also delegate a single asset class or specific operational functions. According to the 2023 ai-CIO Outsourced Chief Investment Officer Survey, over 60% of asset owners with $1 billion or less in assets delegate or plan to delegate at least a portion of their assets. Of those, about 55% use or plan to use full delegation, while the other 45% use or plan to use partial delegation.

Taking this a step further is the newly available Pooled Employer Plan (PEP) solution available to U.S. 401(k) sponsors following the passage of the first SECURE Act. PEPs can allow employers to outsource nearly everything about 401(k) plan management by participating in a third-party sponsored 401(k) plan management solution, similar to how employers approach many of their benefits. We believe PEPs will completely change the dynamics of the U.S. defined contribution landscape due to their significant potential to reduce plan costs, reduce administrative effort, reduce fiduciary risk and improve participant outcomes. We are happy to have introductory conversations with any 401(k) sponsor or you can learn more about our LifeSight PEP offering.

Conclusion

As we navigate the intricate landscape of 2024, our research underscores the critical lessons learned from the market's high volatility in the previous year. Investors are poised to emphasize thoughtful diversification, fee awareness and the integration of robust governance principles into their investment decisions. The collective focus of our clients for 2024 revolves around macroeconomic conditions, fees, organizational design/governance and geopolitics.

In this dynamic environment, WTW stands as a seasoned partner, ready to assist organizations in translating their objectives into effective investment strategies. As we collectively navigate the challenges and opportunities of 2024, our commitment to empowering clients remains unwavering.

About WTW

At WTW (NASDAQ: WTW), we provide data-driven, insight-led solutions in the areas of people, risk and capital. Leveraging the global view and local expertise of our colleagues serving 140 countries and markets, we help you sharpen your strategy, enhance organizational resilience, motivate your workforce and maximize performance. Working shoulder to shoulder with you, we uncover opportunities for sustainable success — and provide perspective that moves you. Learn more at wtwco.com.

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WTW-133206/02/2024

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