

Shifting market conditions will favor active management

The investment environment is changing. The post-GFC era of low rates and abundant liquidity is being replaced by one of higher rates, greater divergence of returns, and more volatile markets. We believe this period of transition will continue in the second half of 2024 and underpin conditions for active managers to outperform.

Challenging market conditions will require investors to be more valuation-sensitive than in recent times, when a rising tide lifted all boats. Traditional skills, such as identifying stock drivers and idiosyncratic risk, will continue to be essential, but investors will need to take into account wider macroeconomic, social, and geopolitical factors along with company fundamentals.

Active managers have performed well following periods of index concentration

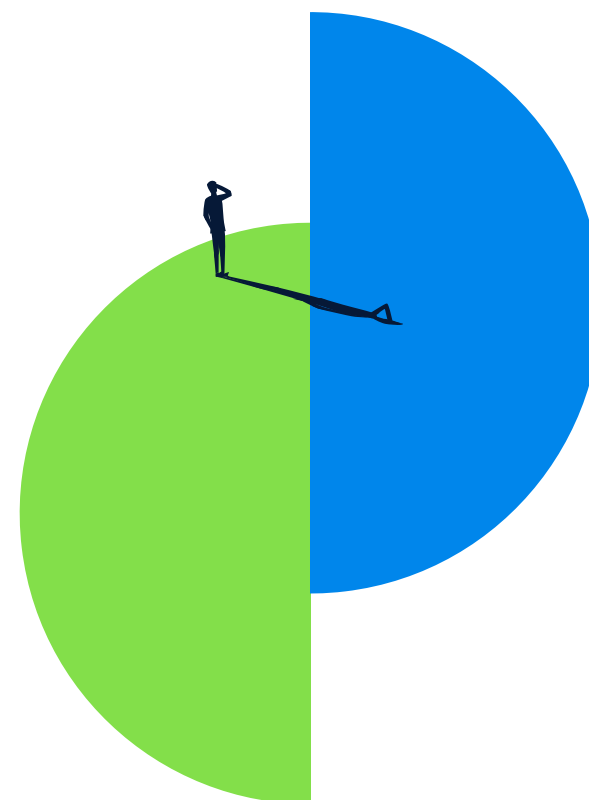
Active managers tend to go beyond benchmarks and into factors that can be cyclical, such as small-cap and value stocks—both of which we believe may

perform well in the period ahead. Top performing active managers have also historically performed well following periods of heavy index concentration—and markets recently have been concentrated to an unprecedented degree.² Although it is difficult to predict when the current period of index concentration will recede meaningfully, there are already signs that the dominance of the Magnificent Seven is beginning to fade.

The end of the period of very low rates will also, we believe, lead to greater dispersion and heightened volatility in bond markets. Active investing can help with duration management, as well as managing country selection, curve positioning, and security selection.

These developments do not mean we expect passive investing to undergo a major retreat. However, we believe that active management will be the better option for the period ahead, as it can offer better outcomes during periods of greater volatility and dispersion.

² Based on eVestment U.S. large-cap manager performance and S&P 500 Index concentration analyzed from September 30, 1989 to December 31, 2023. **Past performance is not a reliable indicator of future performance.** As of April 30, 2024, the S&P 500 Index and Russell 1000 Growth Index both registered their highest levels of concentration in 20 years, as measured by the combined weighting of the 10 largest stocks in each index.



Key takeaway

We believe the likelihood of continued asset price dispersion and heightened volatility will suit active management strategies.

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