A Potential New Era (Not Just for Bonds)

and the Impact on Active vs. Passive Investments in Retirement Plan Lineups

January 2025

Ryan McWalter, CAIA, Senior Director, Investments | **Jordan André, CFP, CAIA**, Director, Investment Strategy

Our discussions with investment professionals tell us that most believe the decade following the 2007-2009 financial crisis was a once-in-a-lifetime investment environment that has now passed. This sentiment does not necessarily forecast a poor investment environment going forward, but it puts the 2009-2021 period into historical context. We are likely entering a new era of long-term, historical normalcy regarding monetary policy (interest rates), which will impact capital markets and the conduciveness of active and passive management across asset categories and classes.

Financial and investment media coverage, and many investors, were hyper-focused on inflation reports and the Federal Reserve (the Fed) in 2024. It is possible that those who view monetary policy with a more binary lens ("higher for longer" vs. low interest rates) might be missing a very important point: The Fed could potentially be seeking monetary policy normalization and the ability to respond to the next potential bout of economic weakness without the use of a zero-interest rate policy (ZIRP) and large-scale quantitative easing (QE) that was used following the 2007-2009 market drawdown.

Following the financial crisis, QE was used as an unconventional element in monetary policy where central banks conducted consistent, scheduled, large-scale asset purchases in the open market as price-insensitive buyers. Central banks weren't buying certain assets, such as mortgage-backed bonds/securities, for their perceived fundamental value but simply to increase the money supply in the financial system and reduce long-term interest rates to stimulate economic growth.

Many in today's workforce built a large portion of their retirement savings in a low inflation and easy monetary policy environment. The bulk of the post financial crisis period and the behavior of stock/bond markets were influenced by the historically low inflation and resulted in ZIRP and QE.

Some investors believe the Fed may be striving to reintroduce a cost-of-capital to markets that was not present for a long time. One active equity fund manager recently wrote that monetary policy providers could be working to support rational "market clearing" prices,[1] not just with bonds, which are most directly impacted by inflation and interest rate movements, but also in equity, credit and real estate markets.

Our investment team's active vs. passive research is revisited in the charts below on small cap growth, coupled with inflation data points. This highlights the idea that normalized inflation or future increases might continue driving pockets of potential opportunity for active funds to outperform. TruePlan's full summary of the relative performance of active and passive funds is useful to 401(k) and 403(b) retirement plan sponsors tasked with making more nuanced decisions regarding a diversified, multi-asset class/category lineup.

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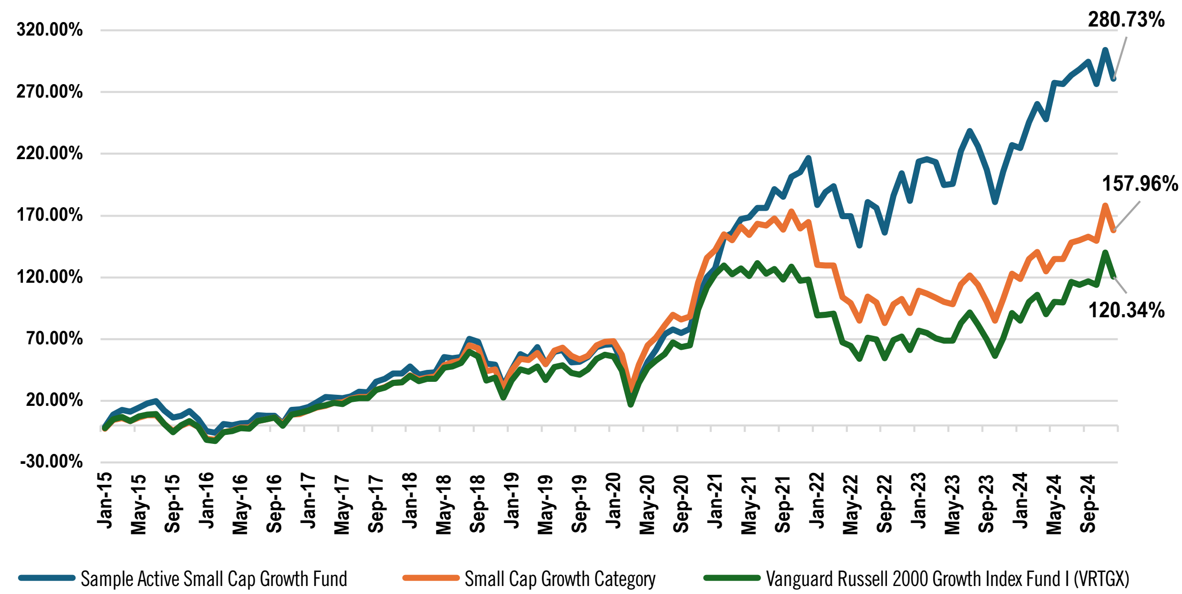
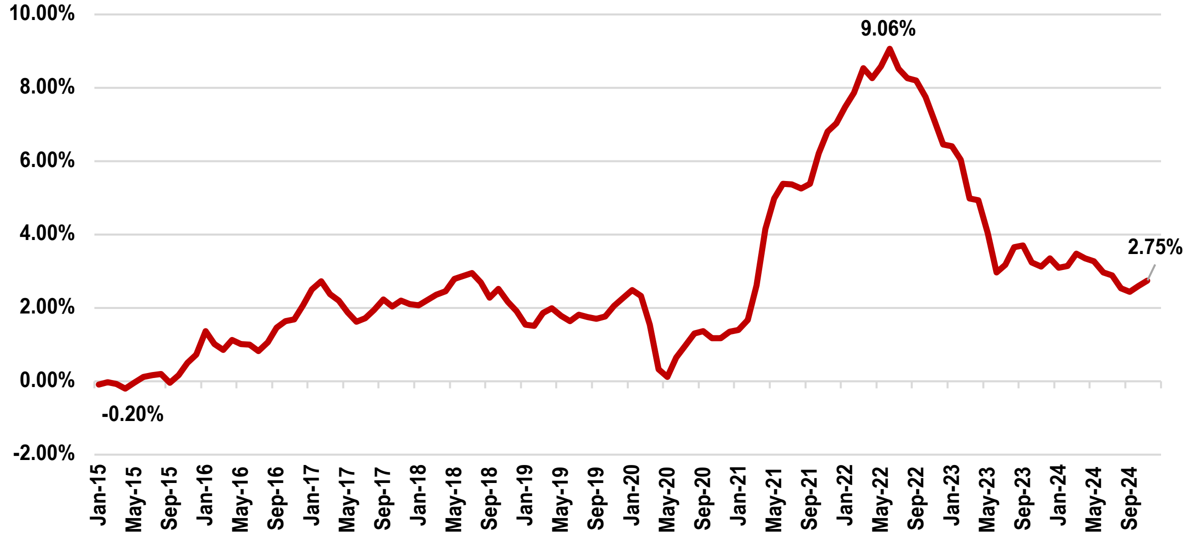
[1] Source: Oberweis Asset Management |

Cumulative returns, inflation and active vs. passive management (10 years ending December 2024)



"Small Cap Growth Category": Cumulative returns derived from the average monthly returns of all funds in the category (121 funds on average per month); one share class per fund (Institutional) with a range of 111-128 funds per month. *"Sample Active Small Cap Growth Fund"*: A fund with TruePlan client assets since October 2022.

Inflation prior 12 months (monthly data points I 10 years ending November 2024)



Return data are net of fees. Past performance is not a guarantee of future returns.

(Sources: Ycharts for fund returns and the Bureau of Labor Statistics for inflation)

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518.431.7600 | 800.388.1963

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