

INVESTMENTS AND PENSIONS OVERSIGHT COMMITTEE

Representative Cynthia Borrego, Chair
Senator Roberto “Bobby” Gonzales, Vice Chair

New Mexico State Investment Council
Annual Investment Plan Overview

Robert “Vince” Smith, Deputy SIO, Chief Investment Officer
Friday, September 12, 2025



New Mexico State Investment Council 2026 Annual Investment Plan Macro Overview

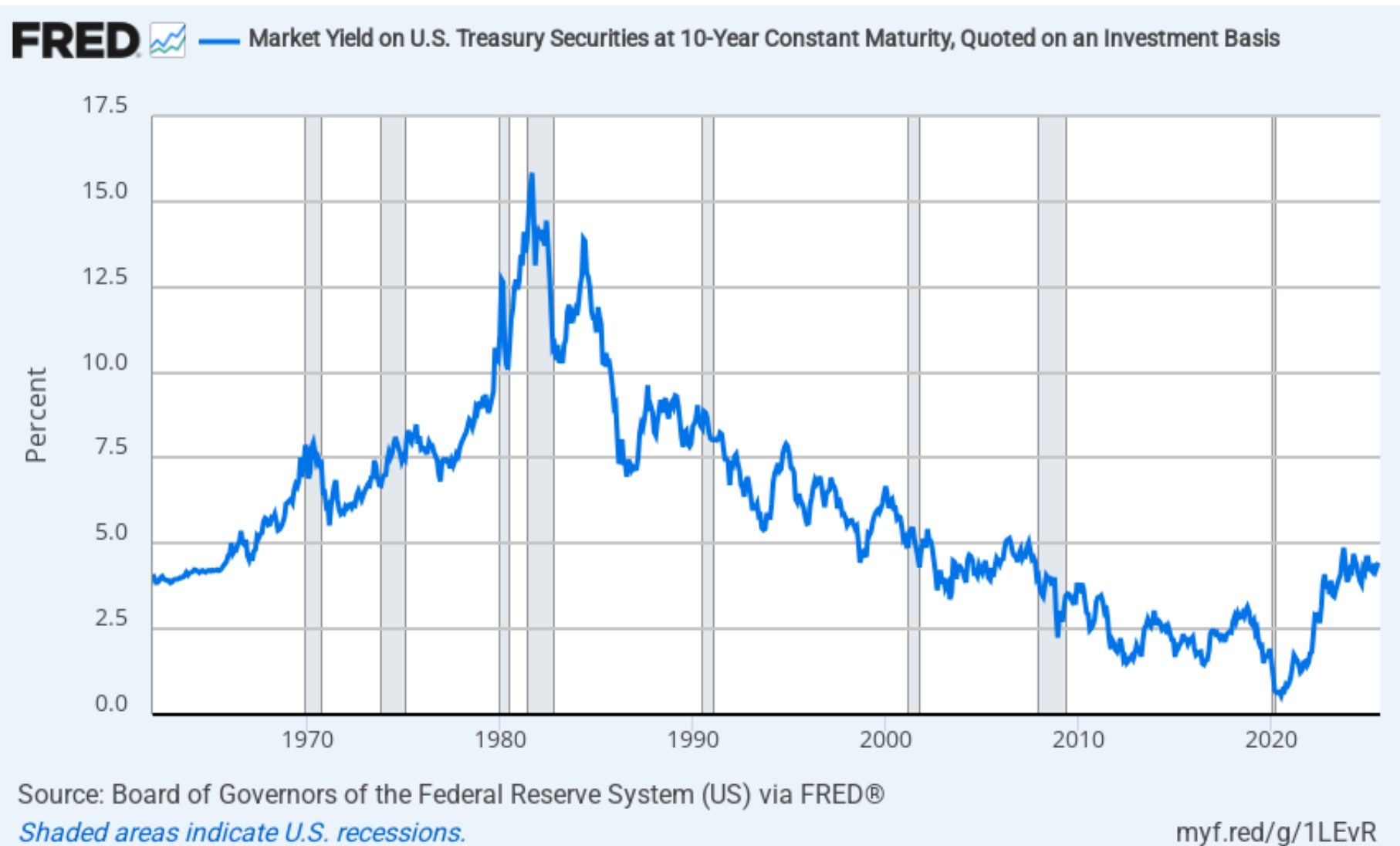
Part I: Change in Trend in Interest Rates and Inflation

Part II: Laundry-List of Identified Factors That We Expect to Change and/or Resolve Over Our Outlook Period

Part III: Financial Market Implications

Part IV: What We Propose to Do About All of This

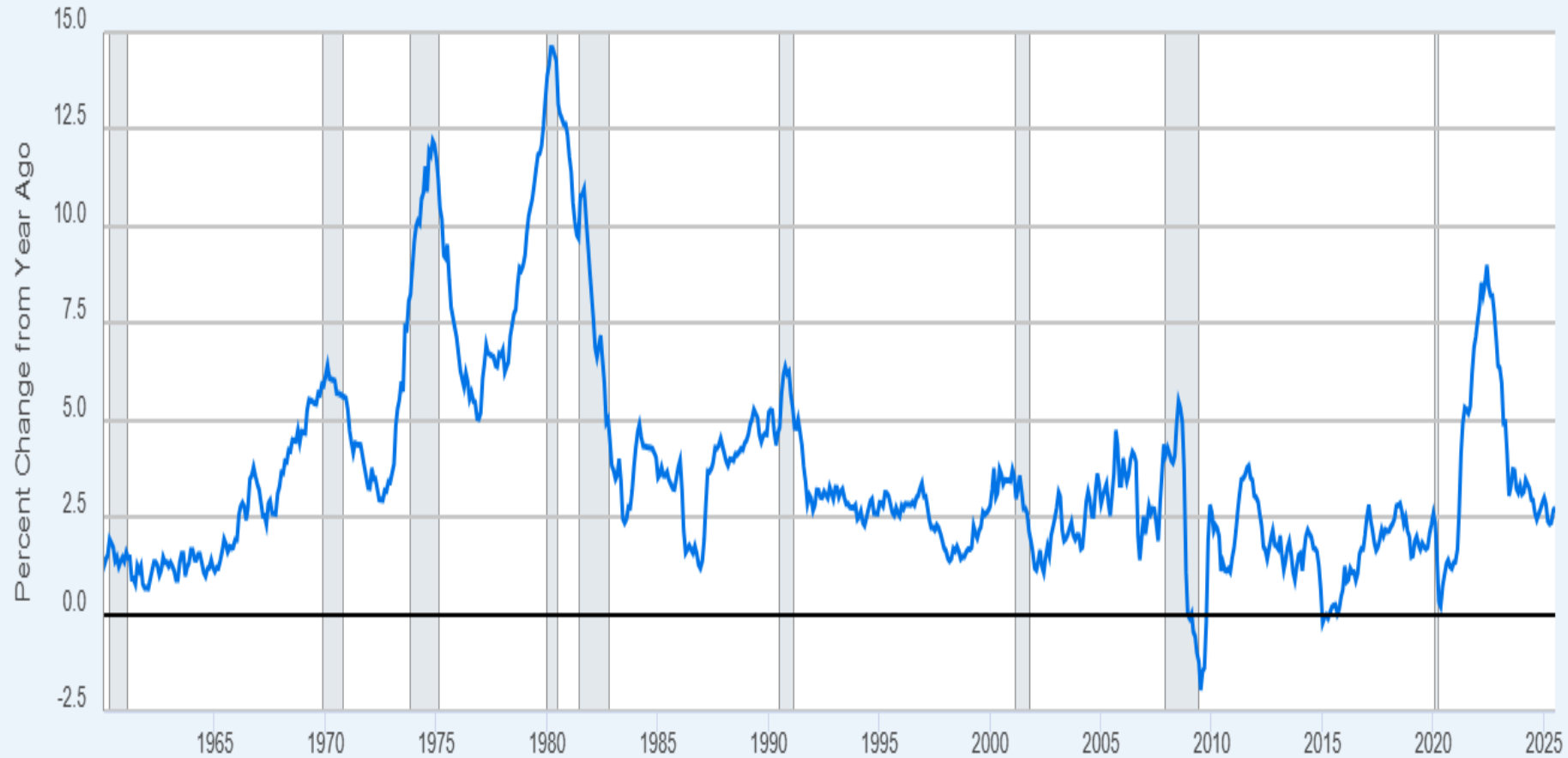
Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity 1960 - Present



Consumer Price Index, Percent Change from Year Ago 1960 - Present



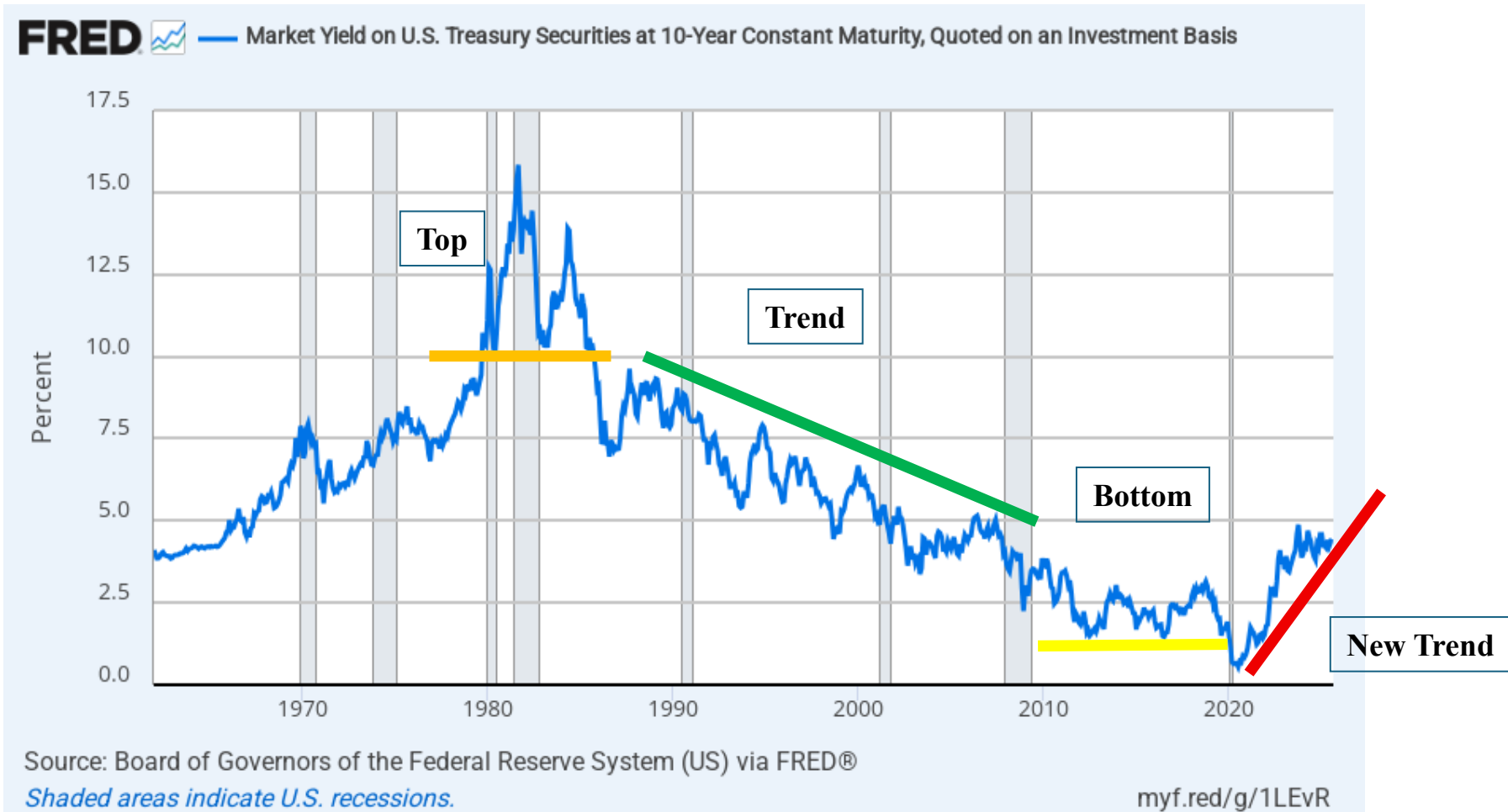
— Consumer Price Index for All Urban Consumers: All Items in U.S. City Average



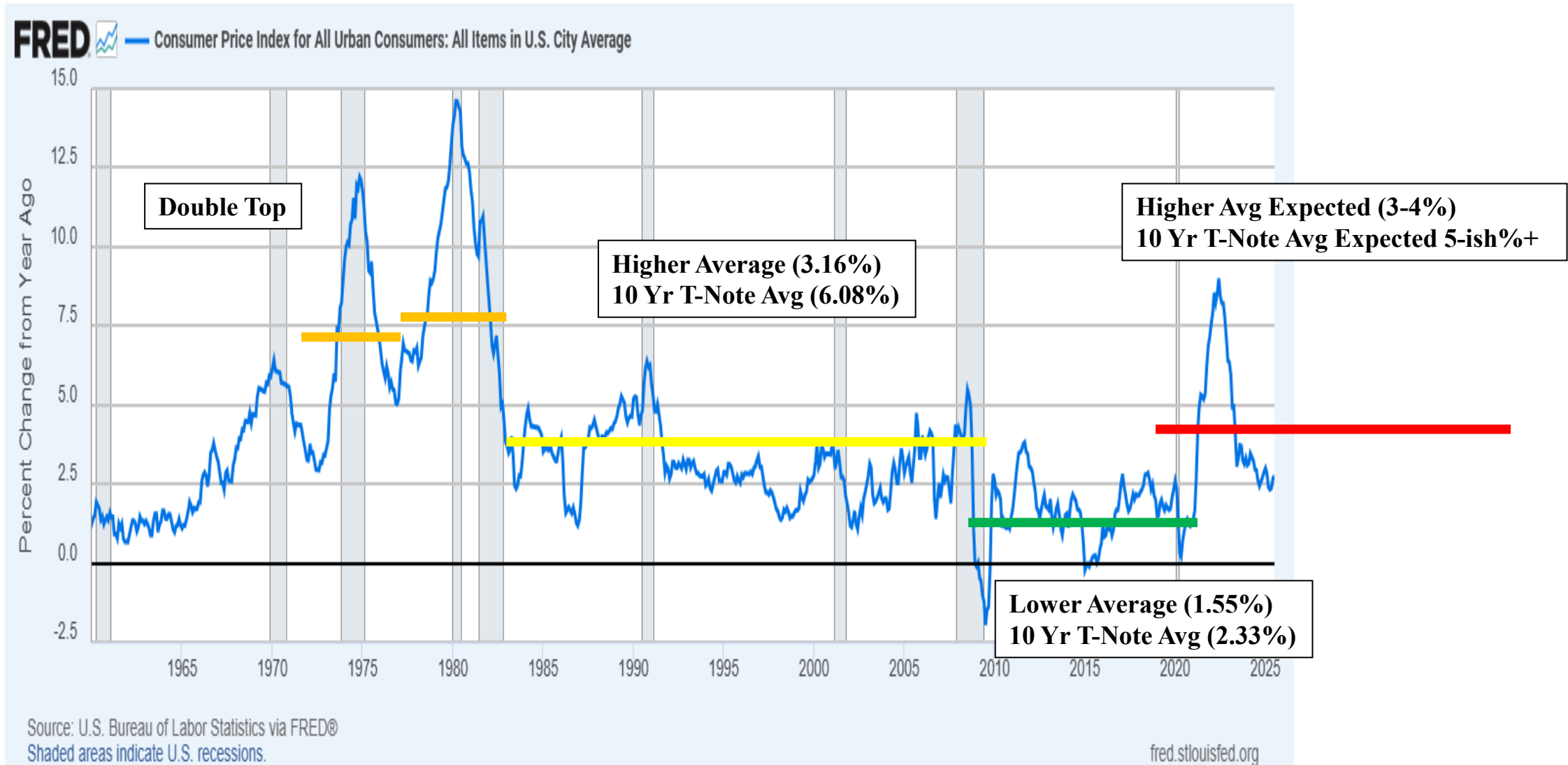
Source: U.S. Bureau of Labor Statistics via FRED®
Shaded areas indicate U.S. recessions.

fred.stlouisfed.org

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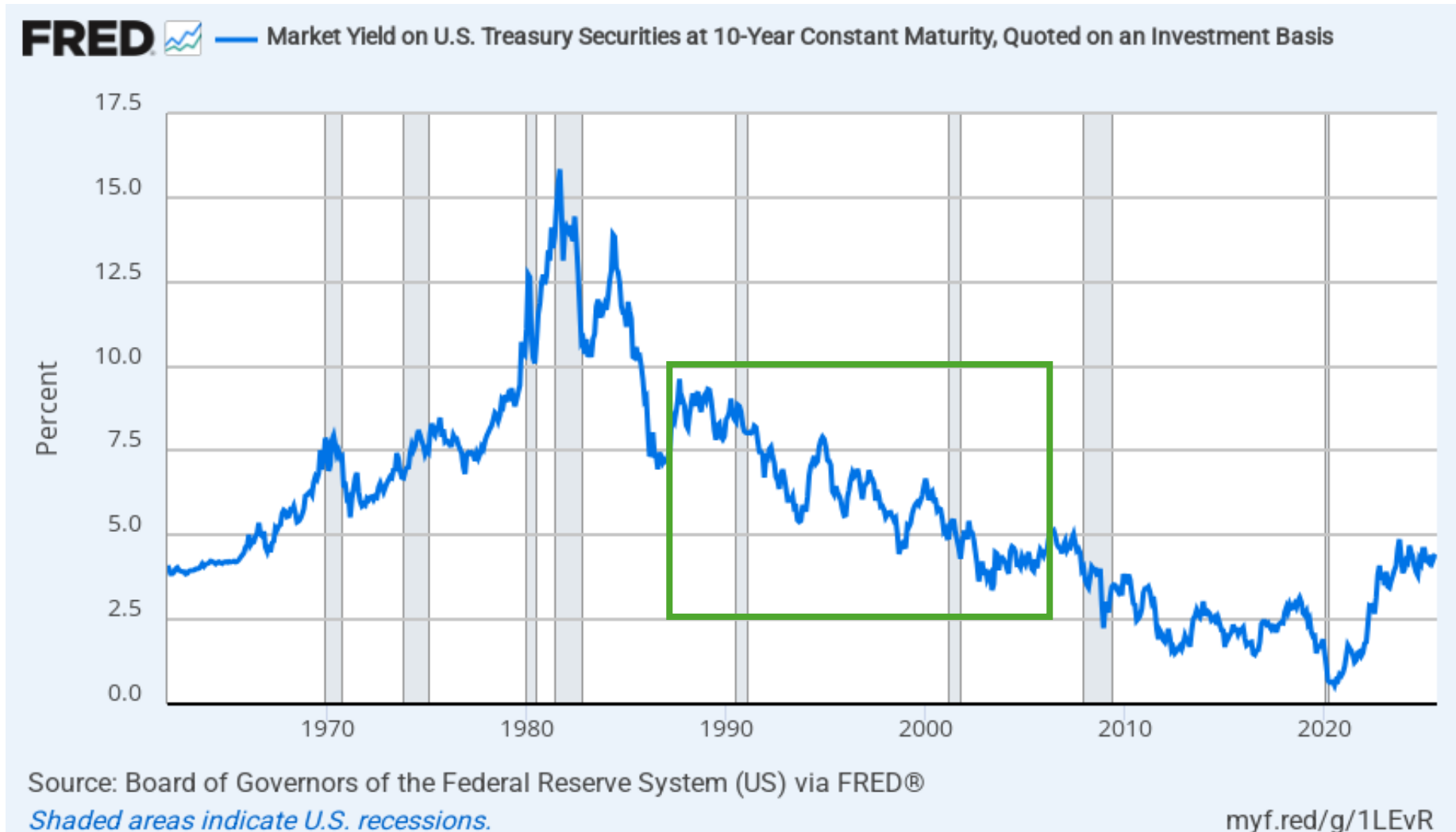


- **Alan Greenspan, Federal Reserve Chairman, August 1987 to January 2006**
- ***“The Maestro”, “The Greenspan Put”***



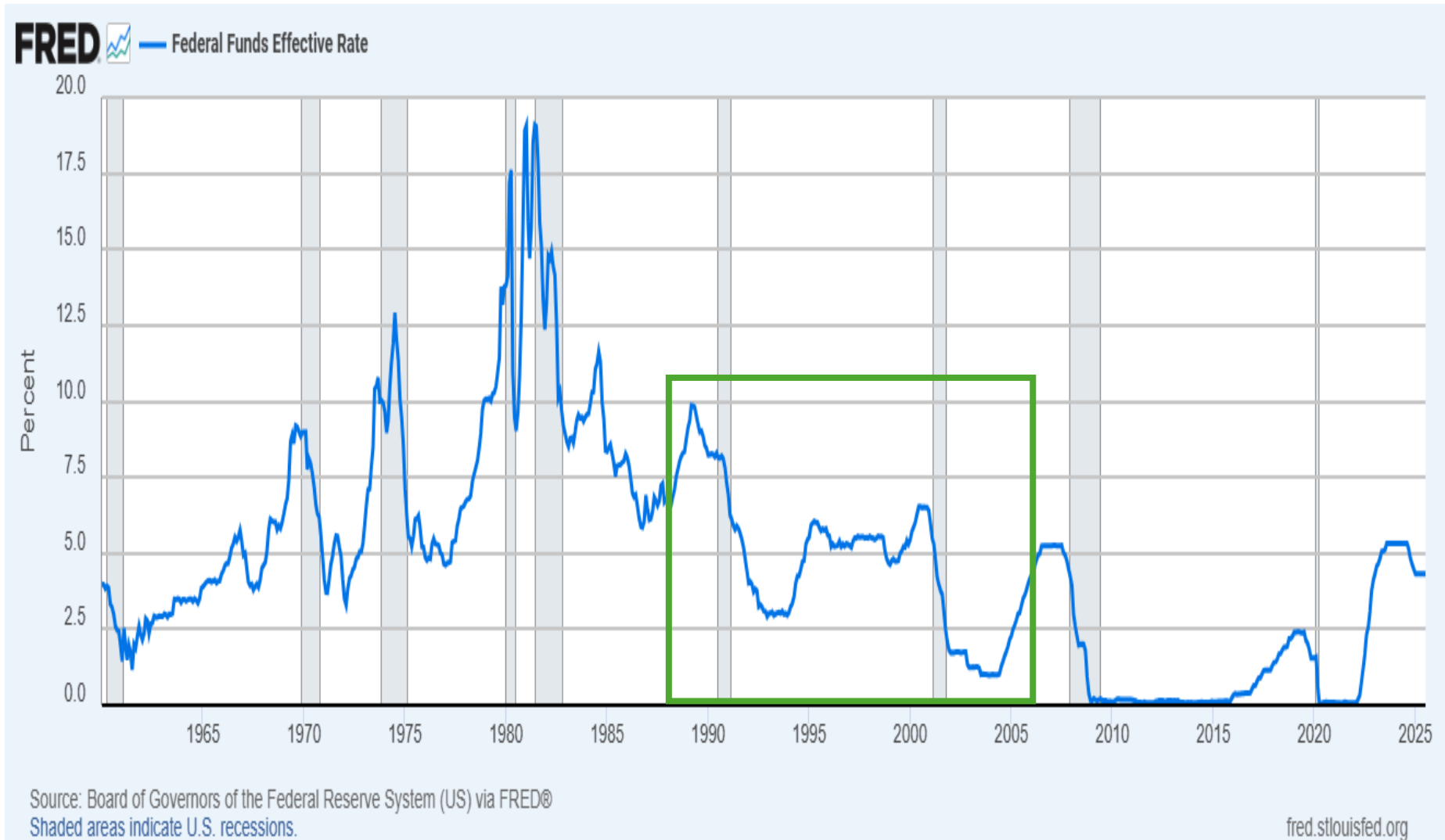
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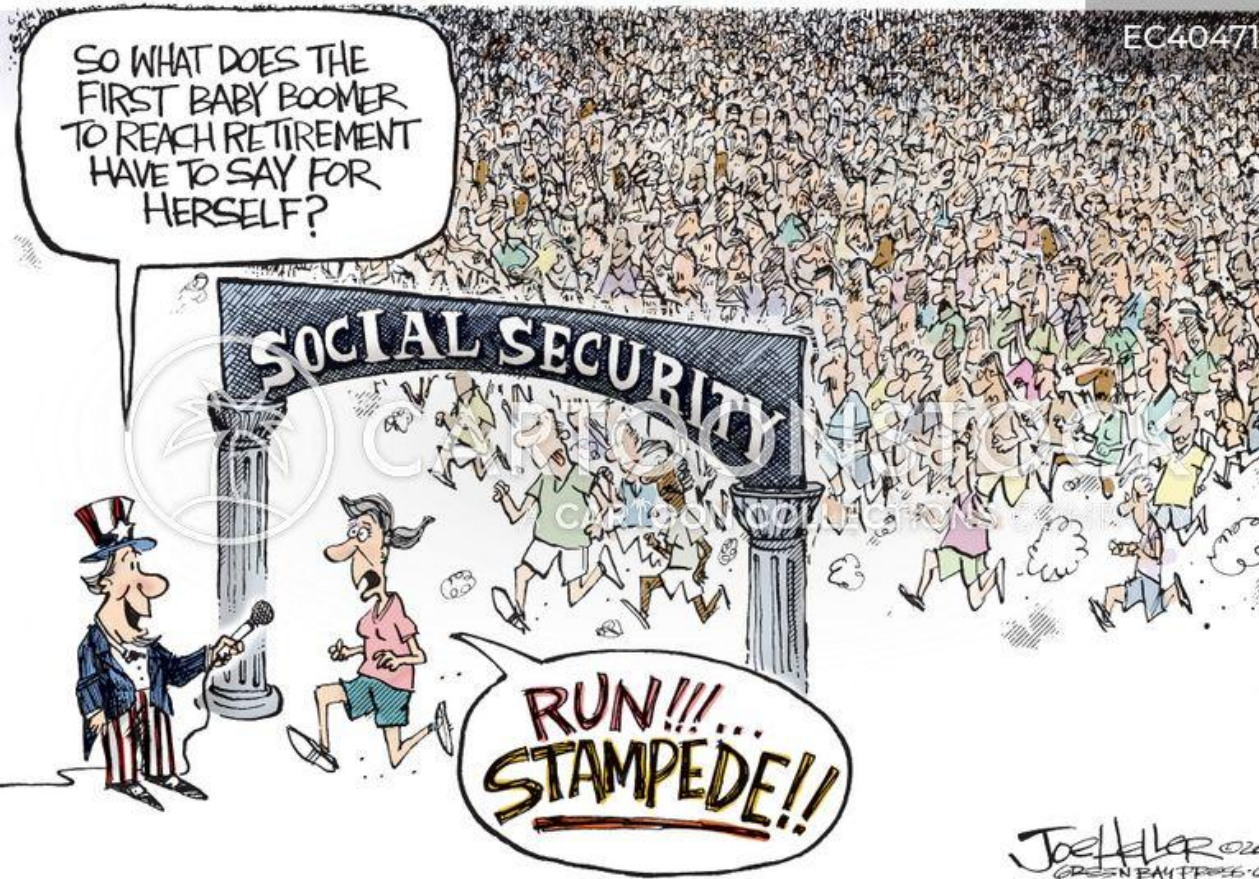
Alan Greenspan's Term August 1987 – January 2006



Federal Funds Effective Rate 1960 – Present

Alan Greenspan's Term August 1987 – January 2006

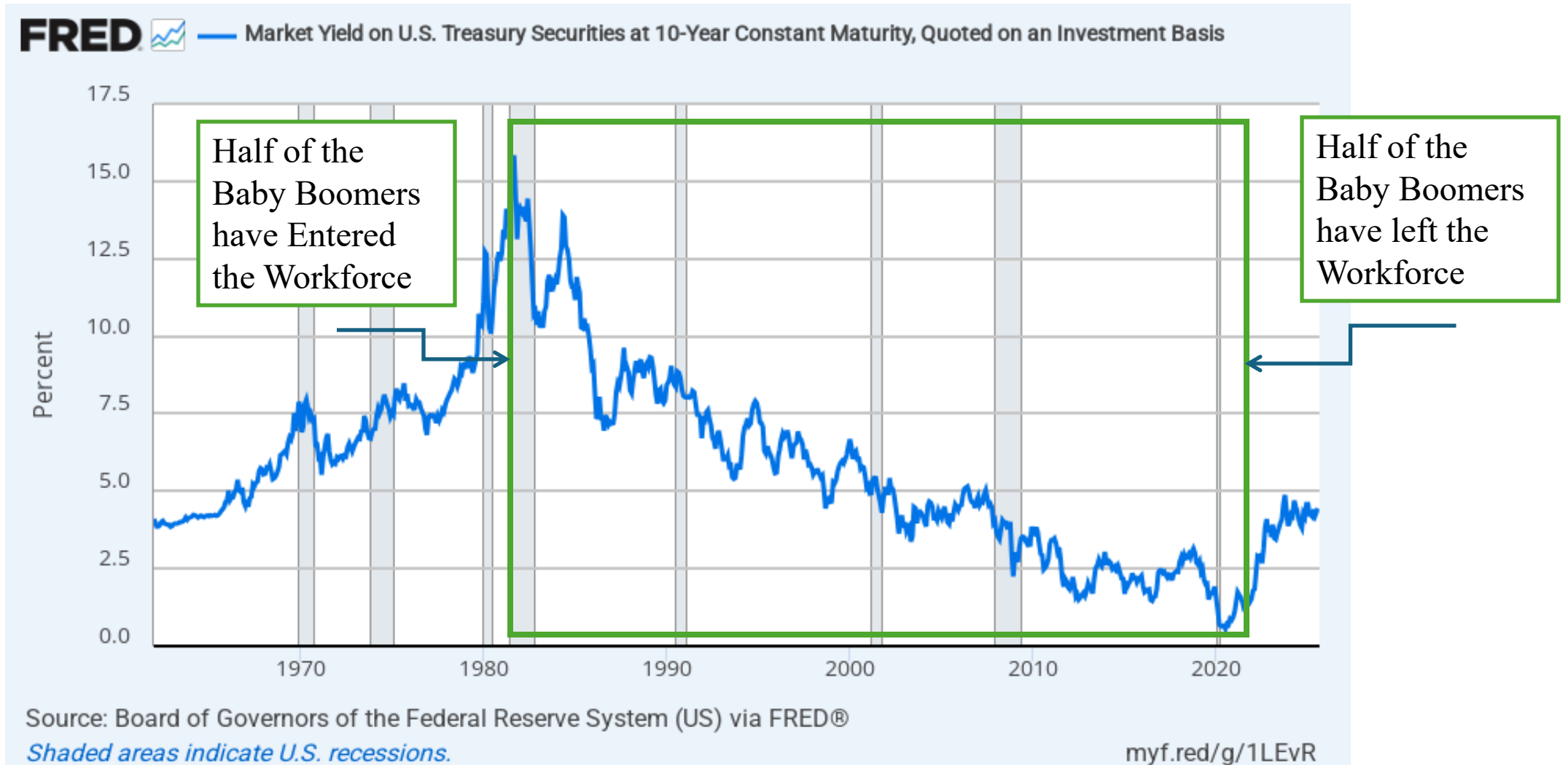




The 'Baby Boom' Generations (Boomers) Born 1946 - 1964

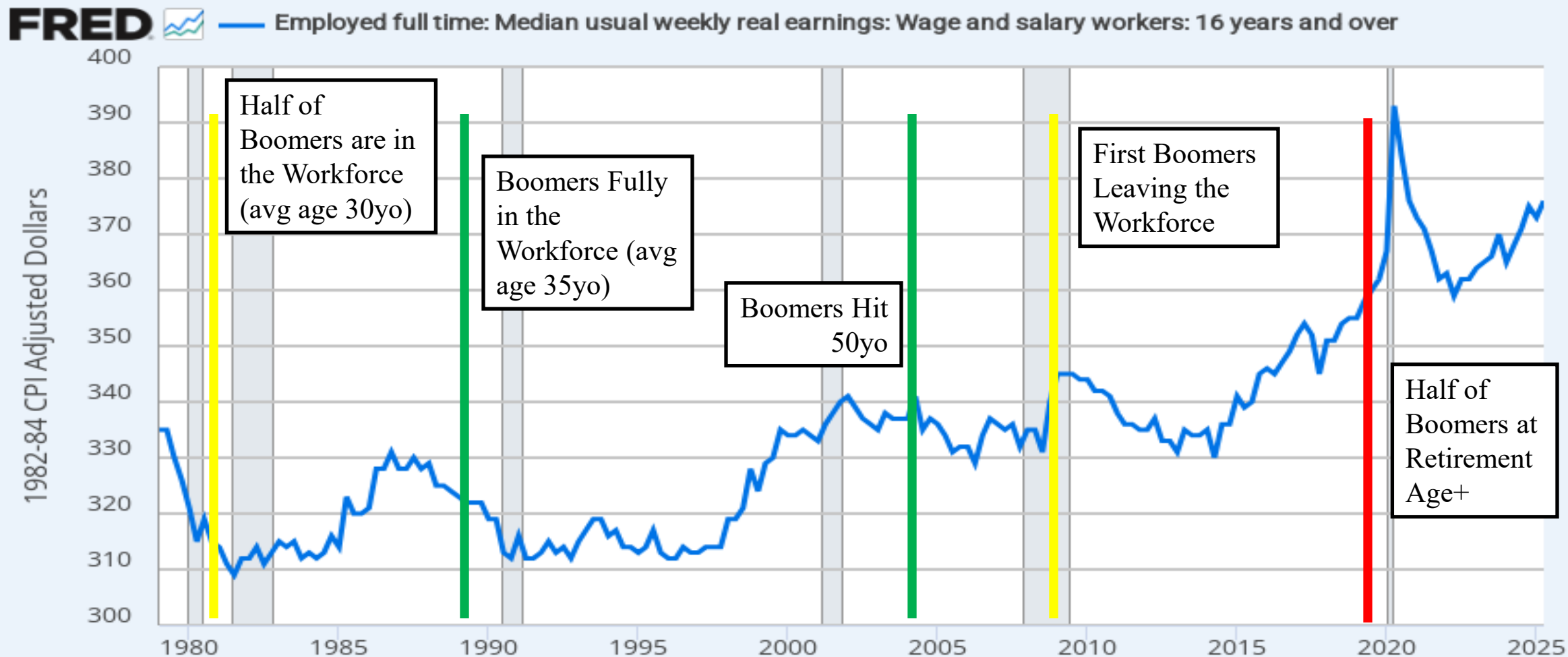
Market Yield on U.S. Treasury Securities at 10-Year Constant Maturity 1960 – Present

Baby Boom Generation Labor Force Participation



Median Weekly Real Wages 1979 – Present

Baby Boom Generation Labor Force Participation



Source: U.S. Bureau of Labor Statistics via FRED®

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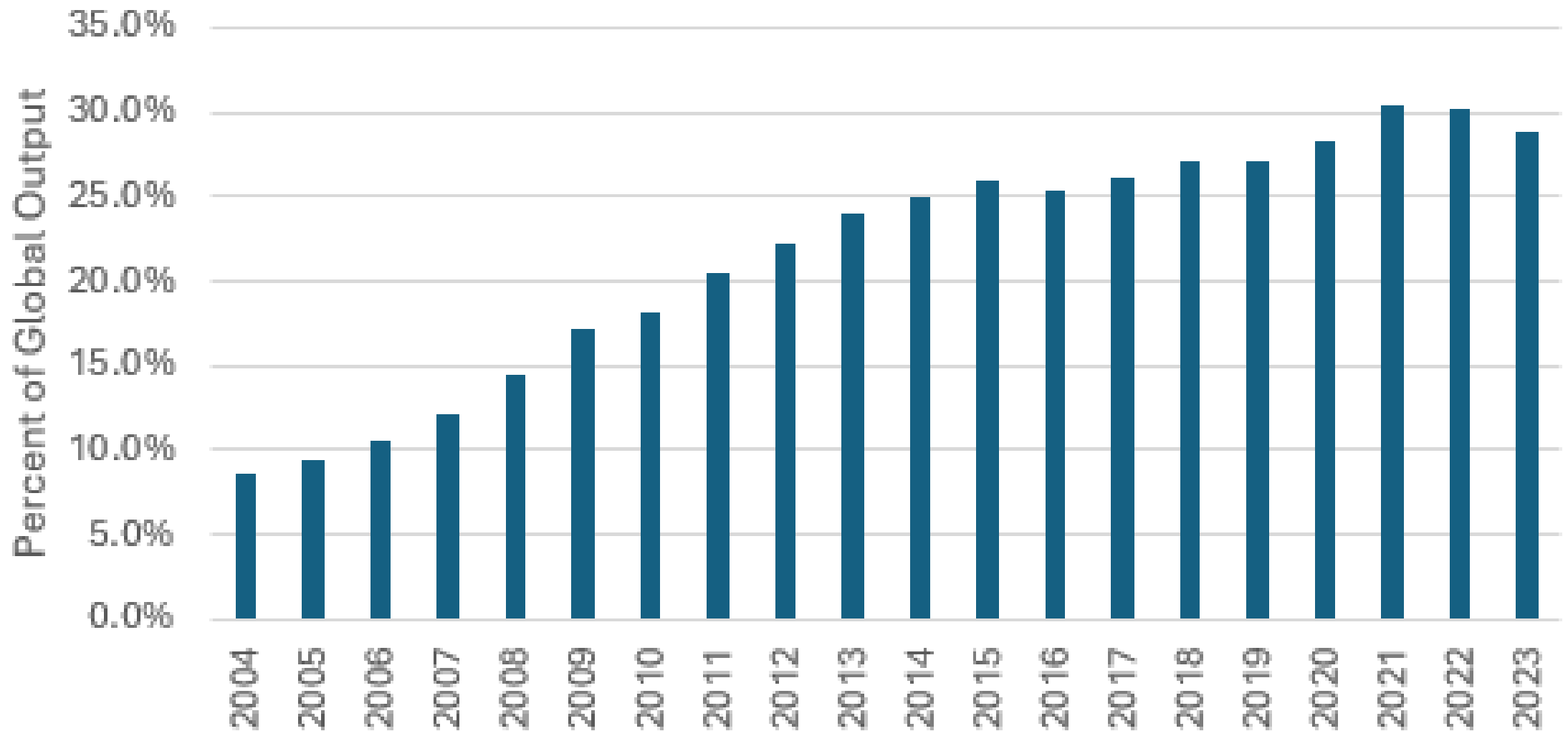
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China!



gettyimages®
Credit: Bob Krist

China's Manufacturing Capacity



Significant Disinflationary Factors have Left the Building



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Part II: Identified Change Factors

Reversal of Globalization

- Boosting Globalization/Economic Integration
 - Cold War (1947-1991) and Economic Integration of the West
 - Marshall Plan (1948-1952)
 - OEEC and OECD – European Economic Integration
 - Policy Changes negotiated in China Late-1970s-Early-1980s/Entry into World Markets
- Reversing Globalization
 - Geopolitics: Presidential Elections Beginning with Bill Clinton (1992)/"Nationalistic Lens"
 - Geopolitical Events: "9/11"; COVID-19; global migration

Resolution of record valuations afforded U.S. publicly-traded equity markets

- Demographics
- "Passive" Investing

Extended economic cycles and the effect on accumulated debt

- No "proper" recession in the U.S. since 2008-2009—16 years
 - Historical length of an economic cycle=7 to 10 years
- U.S. Debt 97%/120% GDP
- Budget Deficit 5.5-6.0% GDP Current and Go Forward

Part II: Identified Change Factors

China

- Massive Government Debts
- Crashing Demographics
 - By the End of Our 7-10 Year Outlook Period:
 - China's working age population will fall by 12%
 - The number of 65yo+ people in the country will rise by 88%
 - The number of children in China will fall by 40%
 - By the end of the century (2100) China's population is expected to fall by 57% with a downside estimate of -71%

Artificial Intelligence (A.I.)

- Technology is always a change-agent, and AI may be the granddaddy of them all.

Part III: Financial Market Implications

Nearer-Term Factors

- An extended economic cycle
- High debt loads
- Federal budget deficits when the economic cycle calls for surpluses
- Near-record stock market valuations

Outlook period-long factors of:

- Higher inflation
- Higher interest rates
- Shifting international economic relationships
- (Intractable) economic and demographic problems facing a major global economic player (China)
- Demographics generally pressuring growth prospects risk-capital availability, government budgets, social and political systems

We Think it Fair

- ...to expect lower-than-average investment returns over our outlook horizon
- Historically public funds have earned about 2.50% to 4.00% over the starting 10-year Treasury yield over 10-year forward periods, compounded annually.
- Given a starting yield on the 10-year Treasury today of 4.35% this implies that returns of 6.85% to 8.35% are available.
- Given the factors above, we think it fair to expect to be on the low end of that range with significantly higher volatility.

Part IV: Broad Investment Strategy

Tougher Period: Lower Return Environments Bring Higher Volatility

- Looking back in history, periods of low returns are often accompanied by materially above-average volatility.
- The stock market doesn't just cruise along at 4% returns. It gets there through big sell-offs and face-melting rallies.

Enter Periods Like This with a Well-Diversified Portfolio

- Whether you're studying economic and financial market history, reading your CFA textbooks, listening to your consultant, have time in the CIOs chair or some combination of the above, you know that a diversified portfolio of investment assets is an elixir to volatility.

Be Prepared From an Investment Policy and "Mindset" Perspectives to take Advantage of the Immense Opportunities Environments Like Expected Can Bring

- Our 2026 Annual Investment Plan provides a number of previous periods which provided multi-year, double-digit returns following harrowing stock market and risk asset sell-offs.

CLOSING NOTES

- **SIC's Annual Investment Plan** is available online via the SIC website:

<https://www.sic.state.nm.us/investments/annual-investment-plan/>

- **Meeting Materials:** <https://www.sic.state.nm.us/council-committees/meeting-materials/>

- **Webcast:** <https://www.youtube.com/channel/UCCXOtH4-hFrK8FndflbBO7Q>

- **Contact:** <https://www.sic.state.nm.us/contact-us/>