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Shannon Saccocia: Why Next-Generation Investors Don't Want to Invest Like Boomers

Shannon Saccocia, the chief investment officer at NB Private Wealth, explains why just making traditional portfolios more aggressive won't satisfy younger investors.

By Steve Garmhausen

PHOTO: COURTESY OF NB PRIVATE WEALTH

There has been a ton of publicity about how trillions of dollars are starting to change hands in the so-called great wealth transfer from baby boomers to younger generations. But the population that grew up with the internet, cellphones, and personal computers doesn't want to invest like boomers, says Shannon Saccocia, chief investment officer at NB Private Wealth. "Taking a 60/40 portfolio and moving to 80/20 or 90/10 doesn't work for a next-gen investor," says Saccocia, who joined the private wealth arm of Neuberger Berman following more than five years as CIO at Boston Private, later SVB Private.

Speaking with Barron's Advisor, Saccocia explains that next-generation investors tend to identify with "the more disruptive part of the investible universe," but also gravitate to cash and conservative bonds. She anticipates that Republican control of Washington will be very good for business but may not last long. And she breaks down President-elect Trump's tariff proposals, explaining which ones may be posturing and which ones, if enacted, could fuel inflation.

How did you get into this field? I was initially pre-med in college, and I took an economics course and fell in love with it. Economics felt like the intersection of math and science and some of the history that I loved, as well as behavioral aspects of investing. I found a niche in the private-client world. I didn't want to be an advisor. I wanted to focus on investments and be that subject-matter expert who could talk about topics that perhaps might be a little bit nuanced for the advisor to deliver.

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Were you acquainted with the field of finance growing up? No, my dad was a tech guy. Have you read Morgan Housel's The Psychology of Money? I was that person who grew up in a house where there was no financial discipline. There was a lot of financial uncertainty; there was income coming in, but budgeting and saving wasn't happening. When I got my first paycheck, I didn't even really understand the concept of taxes. Where did all that money go?

What's involved in your job? My job is to oversee investment strategy for our private wealth business, which is about $80 billion. As an asset manager we have a little over $500 billion. The challenge is all these silos: fixed income, equities, private markets exposure. My job involves bringing all of them together and creating a cohesive message and narrative around Neuberger Berman's views, and delivering on those for private clients.

I went the CIO route because I wanted to do the hard work around managing money and making decisions that directly impact clients. I love the strategy part of my job—building portfolios and creating solutions that make sense for clients who came in with a specific problem.

How often do you meet with clients directly? Pretty much daily. It can be anything from popping in to share a high-level view of the world to helping with an opportunity for asset consolidation, to talking about what I would do to improve a portfolio. A lot of the families I talk to are our higher-end strategic clients. But I also love talking to current earners. They may not have a big AUM number yet, but they have the potential to grow to that, especially if they have a liquidity event on the horizon. I love getting in front of those people early. I enjoy getting to know the client and really understanding where they're coming from.

How are next-gen investors different? Taking a 60/40 portfolio and moving to 80/20 or 90/10 doesn't work for a next-gen investor. They have a skepticism around the public equity market. They have lived through the dot-com crash, the Great Financial Crisis, and the Covid pandemic. They've seen a massive amount of wealth destruction, and they do not feel like public equity management is aligned with delivering what they deem to be shareholder value.

They don't just define that as financial shareholder value. It's about whether a company is being run for the good of all of the employees as well as shareholders. They also believe that once something is within the public sphere, the opportunity is diluted. So they tend to be more comfortable with private investments. They're not dissimilar from, say, art investors who have historically said, "I want to enjoy what I'm investing in." You see a lot of collectibles.

They view new technologies, Bitcoin, new ways of investing, new asset classes, as continual disruption of industries dominated by people who don't look and sound like them.

There's almost an understanding that this more disruptive part of the investible universe is more aligned with how they see themselves.

They tend to allocate their risk in a barbell approach. They're going to take risk in areas they feel will deliver a financial return, as well as aligning with what they believe they should be putting their money toward. Then they will invest very conservatively in cash and bonds. They like to have the cash flow to fund more aspirational pursuits.

There's also an experience aspect to how they invest. When you're investing in a private company, say, or when you're investing in Bitcoin, you tend to find communities. So they like early-stage ventures because they're part of a community. They're supporting a business that's growing and doing something that they believe in.

What do you see when you look at capital markets right now? An undercurrent of incrementally improving economic activity, which typically wouldn't be enough to get investors excited given equity valuations, is being coupled with the perception that we're going to have this catalytic, deregulatory, pro-business impulse. That creates more comfort around risk assets.

If we just had the story of incrementally improving economic activity, I think there would be questions. What's going to drive earnings growth in equities in 2025? How do we get that broadening out of the market? How do we see small-caps actually earn double-digit earnings? How do we see peripheral Europe overcoming the malaise of its core to produce potential earnings growth and to be investible again? All of those would be questions absent what is anticipated to be very pro-business policy.

What is the bear case? I think your bear case right now is that everything's too expensive, and this fiscal, Washington-based catalyst isn't going to be enough to account for these higher valuations. Or you're worried about the concentration of the market and the continued deceleration of tech earnings. But you are seeing people get more comfortable with valuations.

How about fixed income? You see a lot of questions on the fixed-income side, especially on the longer end of the curve. There has been this mantra to go out in duration, lock in your yields. Yet that's hurt some people, because we've seen volatility at the long end of the curve. So I think people are like, "OK, I feel more comfortable in risk assets because of this combination of economic and industrial impulse. I'm a little worried about the longer end of the curve. And also spreads are very tight, so I'd love to be in high-quality corporates and pick up that yield. But am I paying too much in this environment?" On the private market side, there's this consensus view that you'll see a reacceleration of activity in 2025. So I think a lot of people are like, "OK, equity, both public and private, feels like a better opportunity with more catalysts than

tailwinds, but I'm still going to lock in some yields." You see some tactical repositioning in the bond market that is also helping to create opportunity.

Let's talk about the president-elect. As an investor, I might be excited about tax cuts and deregulation but scared of tariffs and the possibility of resurgent inflation. Your thoughts? I would caveat that to say I think it's a two-year bull case, because that's pretty much what he has. I believe that's why you're seeing so much of it front-loaded, maybe through the middle of 2025. The bull case is that there has been a fairly marked decline in small-business confidence and sentiment coming into 2024 and certainly during the last quarters through the election. If you consider a more deregulatory environment, not only does that imply that there'll be less new regulation, but there is likely to be some regulation questioned. Deregulation helps smaller businesses in general because it allows for more disruption. Deregulation is going to be a major positive.

There's an expectation that taxes are going to stay the same. If you look at the 2017 Tax Cuts and Jobs Act, improvement in earnings from a tax change is really a one-time thing. You get the valuation change, you pay less taxes, fine. I guess you could say tax increases being taken off the table is a tailwind. But I don't think the corporate tax rate is going to come down.

I believe it's going to stay at 21% because the mandate is not to cut corporate taxes. It's to make sure that consumers pay less at the pump and from their shopping cart.

What about the tariff talk? The challenge with tariffs is that the only real deflation has been in goods. We've seen meaningful goods deflation over the past 18 months. That's going to abate with tariffs. We're already starting to see goods prices inflect higher year over year. That is worrisome. Also, the American consumer pays 80% to 100% of any goods tariffs—it just gets passed through to them. You could argue that these companies don't have pricing power right now, and they couldn't pass all of it through, but they're going to do their very best.

I think tariffs will end up being more on the national security side, for any area where we feel we need to maintain a competitive advantage. That speaks more to the China front. The Canada and Mexico threats are completely to renegotiate the United States-Mexico-Canada Agreement. I think that will get done to our benefit.

As far as Europe, I think Trump doesn't necessarily want to get in the same situation that he was in the first time around. I don't believe there's any benefit to him. Nobody hates Europe. Nobody has an issue with Europe. Why are we picking fights with Europe? I think he learned that the first time around, so the focus will be on China. Therefore, it's going to be low-end consumer goods—your Dollar Trees, your apparel stores. You'll see inflation, which Trump will have to counteract with lower energy prices. I do think a very prescriptive policy to keep energy prices low will come out of Washington, because he's going to have to offset some of this inflation, either from growth or incremental tariffs.

I think the policies from Washington are going to prevent the [Federal Reserve] from getting to 2% on inflation. But I think they're going to be OK with that. And I believe Trump's going to be OK with that. When it comes down to it, he's probably going to lose the House or the Senate in the midterms anyway.

And that's why you' re contemplating a two-year time frame? Yes. Whenever you have a sweep, it isn't maintained in the midterms. The bottom line is that corporations are probably going to enjoy the next two years. Private companies are going to enjoy this period. You'll see continued stimulus from the Chips Act, the Infrastructure Act, the Inflation Reduction Act, and the infrastructure bill. The majority of [what is in those acts] will remain intact, because much of it goes to Republican constituencies. So you'll see catalysts from an industrial perspective there.

The consumer probably isn't going to be that much happier in two years than they are today. You're not going to get deflation. People are still going to be upset about higher prices. Trump has a two-year mandate and will try to put his flag in the sand on China tariffs and immigration.

Is tightening the border and mass deportation an inflation concern? Yes, longer term, from a wage perspective. But it will take a while for that to manifest because job openings have come down. It's not going to happen before the midterms.

How about the alternative energy businesses? Are they screwed for the next couple of years? I would say solar is in trouble. Renewables in general are in trouble. I don't think [Republicans] see the necessity of a lot of tax credits for either. They see the opportunity to "drill, baby, drill."

Thanks, Shannon.