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CIO Weekly Commentary
27 January 2025

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Investing in a power-hungry economy

Bottom line up top

Inflation didn't get the memo. In his 1970 book *Winning on Wall Street,* the late Marty Zweig coined one of the investment industry's most famous mantras: "Don't fight the Fed." The legendary finance guru was simply acknowledging the U.S. Federal Reserve's ability to achieve its policy goals, and therefore it's generally wiser to align investment strategies with the central bank's policy (or at least its anticipated impacts) than to bet against it. Now, however, after nearly three years of trying, the Fed remains uncomfortably far from bringing the annualized inflation rate down to its 2% target. Meanwhile risk assets — especially equities — have staged a remarkable rebound from the bear market of 2022.

The victory lap is on hold, much like the fed funds rate. Although year-over-year inflation in this economic cycle peaked at roughly 9% in 2022, interest rate hikes haven't had quite the desired effect on economic activity or price pressures as expected. The U.S. economy has remained resilient in defiance of the Fed's protracted restrictive monetary policy. Among the latest examples of strength was a spike in industrial production in December 2024 (Figure 1). The big jump, fueled by production increases in mining (+1.8%), factory output (+0.7%) and utilities (+2.1%), belies the contractionary trend in the broader manufacturing sector over much of the past two years. This is just one of many indications that the economy continues to put up one heck of a fight against the Fed. And though the matchup may have more rounds to go, it's hard to argue that the economy is losing.

Secular, not cyclical, trends could help power investment returns. Economic resilience and sticky inflation have lowered the

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On behalf of Nuveen's Global Investment Committee

As Head of Equities and Fixed Income, Nuveen's CIO and leader of our Global Investment Committee, Saira drives market and investment insights, delivers client asset allocation views and brings together the firm's most senior investment leaders to deliver our best thinking and actionable investment ideas. In addition, she chairs Nuveen's Equities Investment Council and is a portfolio manager for several key investment strategies.

odds of steady easing by the Fed. And higher-for-longer rates make an eventual economic slowdown more likely, in our view, despite recent history. Rather than fighting (or not fighting) the Fed as a central tenet of their approach, investors can choose to focus on their long-term goals, identify compelling secular trends and allocate a portion of their portfolios to asset classes that have the potential to weather all types of market environments.

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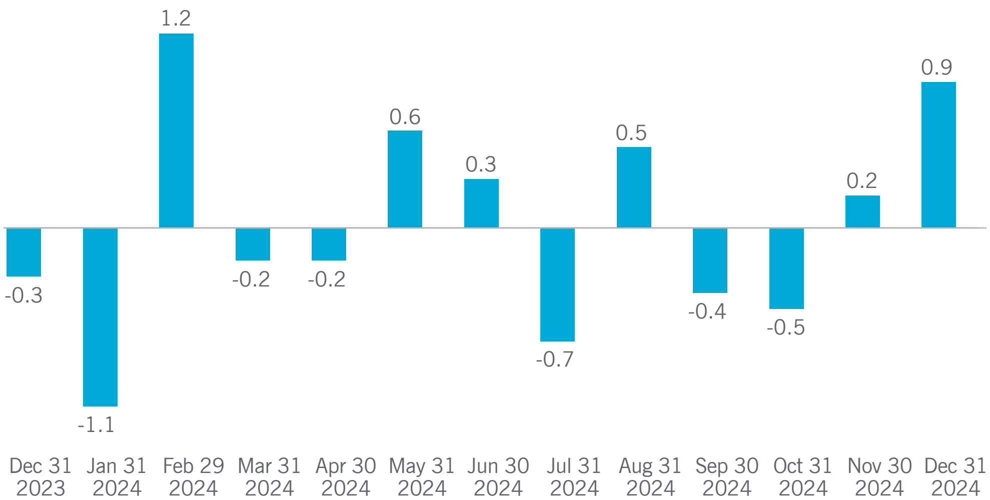
FIGURE 1: U.S. INDUSTRIAL PRODUCTION SPIKED IN DECEMBER

Industrial production (month-over-month, %)



Data source: Bloomberg, L.P., 31 Dec 2024. Representative index: U.S. Industrial Production Month Over Month Index.

Portfolio considerations

Recent economic trends and market dynamics highlight the potential advantages of investing in **publicly listed infrastructure** as part of a well-diversified portfolio. These companies own or operate assets that facilitate the movement of people, energy, goods, commodities and information — in short, supporting economic activity and everyday living. And as an investment, listed infrastructure has historically been an effective hedge against inflation. This makes it a compelling asset class in an economy that's still grappling with sticky inflation and could face further inflationary pressures from the anticipated implementation of higher tariffs.

A particular tailwind for listed infrastructure is the global "mega theme" of exponential growth in energy demand. This phenomenon is being fueled by three main drivers:

1. **Aye-aye, AI — and other power plays.** The emergence and evolution of generative artificial intelligence (AI) and the associated need for data centers offers energy infrastructure opportunities on a massive scale. Global current investment in AI stands just shy of $235 billion, with

forecasts reaching $631 billion by 2028, according to International Data Corporation (IDC), a global technology research firm. And consulting firm McKinsey & Co. recently raised its outlook for total U.S. energy demand in 2030 by 50%, from 400 to 600 terawatt hours (TWh). U.S. data centers are expected to account for 12% of that projected total. Other sources of rising energy demand include the continued electrification of the global economy and increased onshoring and nearshoring of operations by U.S.-based manufacturing companies.

2. **Capex marks the spot.** Accelerated capital expenditures (capex) on new renewable, gas and nuclear energy generation, along with power grid upgrades, will be hallmarks of the future U.S. energy landscape. Figure 2 shows the scope of the change we anticipate in U.S. power demand over the next 15 years. Meeting this demand will require substantial capex growth to support the electric grid and bring new generating capacity online.

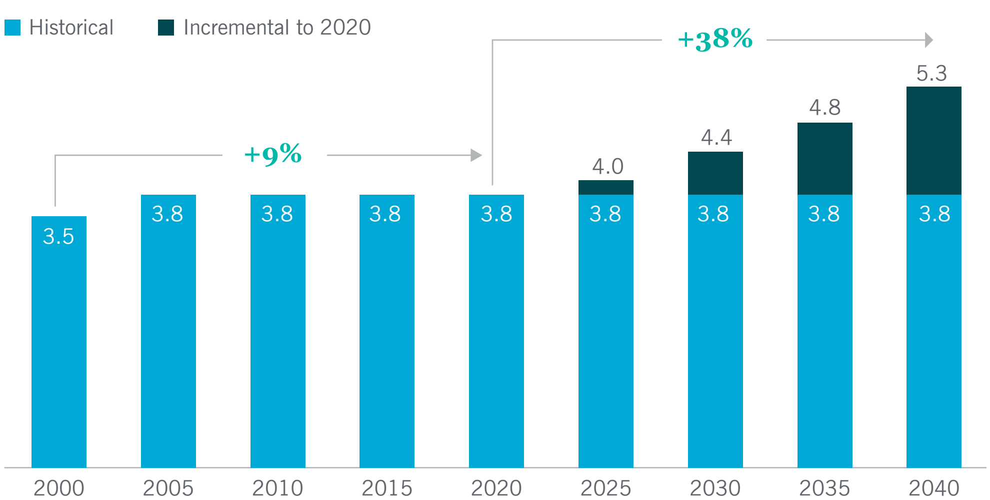
3. **What's in the pipeline, and keeping it clear.** Significant investments in electric transmission and natural gas pipelines will enable augmented generation capacity. While renewable technologies like wind and solar are key pieces of the power puzzle, electricity generated by natural gas can help provide power around the clock, regardless of weather conditions. Moreover, demand for gas-powered generation has risen as coal plants have been retired and the overall market share for renewables has grown.

The structural mega theme of surging global energy demand represents a wide-ranging generational investment opportunity. A strategic portfolio allocation to listed infrastructure provides exposure to many aspects of this mega theme, as well as enhanced potential for diversification and inflation buffering.

The structural mega theme of surging global energy demand represents a wide-ranging generational investment opportunity.

FIGURE 2: ENERGY DEMAND IS GROWING EXPONENTIALLY, THANKS IN PART TO THE AI BOOM

U.S. power demand (thousand TWh)



Data source: McKinsey Energy Solutions Global Energy Perspective 2024; EIA AEO 2023.

About Nuveen's Global Investment Committee

Nuveen's Global Investment Committee (GIC) brings together the most senior investors from across our platform of core and specialist capabilities, including all public and private markets.

Regular meetings of the GIC lead to published outlooks that offer:

- macro and asset class views that gain consensus among our investors
- insights from thematic "deep dive" discussions by the GIC and guest experts (markets, risk, geopolitics, demographics, etc.)
- guidance on how to turn our insights into action via regular commentary and communications

For more information, please visit nuveen.com.

Endnotes

Sources

All market and economic data from Bloomberg, FactSet and Morningstar.

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Important information on risk

All investments carry a certain degree of risk and there is no assurance that an investment will provide positive performance over any period of time. Equity investing involves risk. Investments are also subject to political, currency and regulatory risks. These risks may be magnified in emerging markets. Because infrastructure portfolios concentrate their investments in infrastructure-related securities, portfolios have greater exposure to adverse economic, regulatory, political, legal, and other changes affecting the issuers of such securities. Infrastructure-related businesses are subject to a variety of factors that may adversely affect their business or operations, including high interest costs in connection with capital construction programs, costs associated with environmental and other regulations, the effects of economic slowdown and surplus capacity, increased competition from other providers of services, uncertainties concerning the availability of fuel at reasonable prices, the effects of energy conservation policies and other factors. Additionally, infrastructure-related entities may be subject to regulation by various governmental authorities and may also be affected by governmental regulation of rates charged to customers, service interruption and/or legal challenges due to environmental, operational or other mishaps and the imposition of special tariffs and changes in tax laws, regulatory policies and accounting standards. There is also the risk that corruption may negatively affect publicly funded infrastructure projects, especially in emerging markets, resulting in delays and cost overruns. In addition, investing internationally presents certain risks not associated with investing solely in the U.S., such as currency fluctuation, political and economic change, social unrest, changes in government relations, differences in accounting and the lesser degree of accurate public information available, foreign company risk, market risk and correlation risk. It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager.

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