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CIO Weekly Commentary
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CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Infrastructure adds stability amid market crosscurrents

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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.

Bottom line up top

The political roller coaster and other rocky rides. Last week saw Vice President Kamala Harris secure enough delegates to capture the Democratic presidential nomination and start vetting potential running mates. Meanwhile, impacts from the global IT outage lingered, with flight cancellations, laptop crashes and other disruptions still causing headaches. Second quarter earnings season continued to deliver mixed results, highlighted by disappointing numbers for two of the Magnificent Seven stocks, Tesla and Alphabet (the parent of Google). Their weak showing earned a big thumbs down from Wall Street and hinted that the artificial intelligence (AI) tailwind may already be priced into technology stocks.

Earnings will remain a key input for investors over the next several weeks. According to FactSet, S&P 500 companies are currently reporting year-over-year earnings growth of +9.8% while guiding toward +14.5% for 2025. For now, the debate continues as to whether the recent rotation out of momentum and growth and into small caps will persist.

Which way you goin', inflation and U.S. economy? The Personal Consumption Expenditures (PCE) Price Index for June capped a week of data releases offering evidence of both slowing and continued resilience. Monthly headline PCE, which was flat in May, came in at 0.1% for June, essentially in line with consensus estimates. June's headline PCE was 2.5% year over year, also meeting expectations, and a tick lower than May's 2.6% rate. Core PCE — which excludes volatile food and energy costs and is the U.S. Federal Reserve's preferred inflation barometer — was up 0.2% in June, matching forecasts, and 2.6% year over year, incrementally higher than anticipated. Services inflation was again the largest component of core PCE (Figure 1). These PCE results are benign — although less emphatic than the cooling trend seen in June's Consumer Price Index (CPI) earlier this month — and will likely keep the Fed on track for a pivot to rate cuts, perhaps as early as September.

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FIGURE 1: SERVICES INFLATION WAS AGAIN THE LARGEST COMPONENT OF CORE PCE

Contributions to core PCE (%)

Data source: Bloomberg, L.P., 26 Jul 2024. **Representative Index**: US Personal Consumption Expenditure (PCE) Price Index YoY.

Friday's PCE report was preceded the day before by a stronger-than-anticipated advance estimate of second quarter U.S. GDP growth. The +2.8% pace was double the first quarter's +1.4% expansion. Consumer spending contributed the most to this robust result, followed closely by business investment.

Some of last week's other economic releases were more mixed. Preliminary U.S. Purchasing Managers Indexes (PMIs) for July showed service-sector activity continuing at a healthy clip and surpassing expectations at 56.0, but manufacturing shrank, falling to 49.5. (A PMI reading above 50 signals expansion, and below 50, contraction). In the housing market, both new and existing home sales fell short of forecasts even as mortgage rates came off their recent highs. Meanwhile, first-time jobless claims dipped to 235,000, from an upwardly revised 245,000 the week before, and remained below last year's peak level of 260,000. Continuing claims were also down from the prior week, at 1.85 million.

Publicly listed global infrastructure is one category worth considering.

Portfolio considerations

Equity investors have been rewarded with strong year-to-date returns across most regions and countries. This has made global equity valuations more expensive, as measured by the forward price-to-earnings (P/E) ratio of the MSCI All Country World Index (ACWI). This index is currently trading at a P/E ratio of 17.9x — a 12% premium to its 10-year average.

Where might investors look for more attractively valued opportunities within the broad global equity market universe?

With rising market volatility a distinct possibility during the second half of 2024, **publicly listed global infrastructure** is one category worth considering. The asset class offers sound fundamentals, and a way to participate in some of the mega themes and trends currently shaping the market environment. In particular, we think listed infrastructure will likely continue to benefit from the growth of generative artificial intelligence (AI), as well as from increased onshoring and nearshoring of manufacturing operations by U.S.-based multinational companies looking to bring their supply chains closer to home.

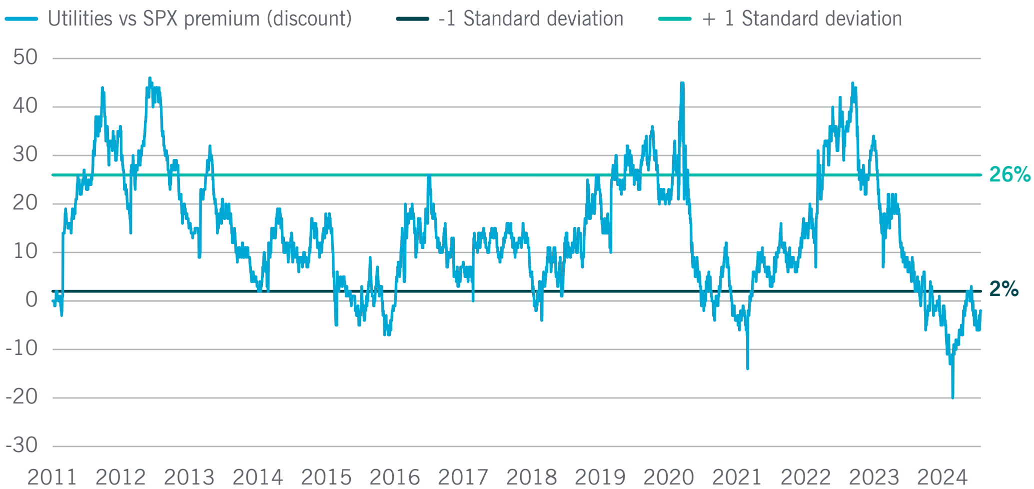
Within the investable infrastructure universe, we favor:

- **Data centers and electric power-generating developers and asset owners.** Investment in new data centers is critical to supporting continued growth in the demand for generative AI. Data center facilities are heavy consumers of energy. In fact, annual energy consumption by U.S. data centers is expected to more than double by 2030 (according to McKinsey). This surge in demand will require substantial investment in new power-generating capacity globally. Investors have shown a keen interest in low- or non-emitting electricity generation, creating a meaningful advantage for developers of renewable versus conventional technologies.
- **Electric distribution utilities:** At their core, electric utilities are large, fixed-cost businesses. An expanding customer base and growing demand allow these costs to be spread over a larger number of customers. This can provide utilities with an important lever, enabling further investments to enhance growth while decreasing the cost to end users. Additionally, utilities trade at a sizable discount to the S&P 500 Index (Figure 2).

Lastly, global infrastructure companies are underpinned by inelastic demand for the necessary functions or services they provide. And because regulatory frameworks allow these companies to pass through higher costs resulting from inflationary impacts, the infrastructure asset class can be an effective hedge against inflation thanks to its long-term contractual cash flows.

FIGURE 2: UTILITIES REMAIN AT A VALUATION DISCOUNT TO BROADER MARKET

Utility P/E premium (discount) vs S&P 500 (%)



Data source: Bloomberg L.P., 22 Jul 2024. **Performance data shown represents past performance and does not predict or guarantee future results.**

We think that listed infrastructure can continue to benefit from the growth of generative AI.

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 investments are subject to market risk, active management risk, and growth stock risk; dividends are not guaranteed. Non-U.S. investments involve additional risks, including currency fluctuation, political and economic instability, lack of liquidity and differing legal and accounting standards. These risks are magnified in emerging markets. The use of derivatives involves additional risk and transaction costs.

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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