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CIO Weekly Commentary
21 January 2025

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Can earnings season thaw 2025's cold start?

Bottom line up top

Two sources of heat, but only one with a chance to warm up markets. The U.S. economy has been poking at the embers of inflation in the early days of 2025, with hotter-than-expected economic data portending a potential winter of discontent for investors. So far we've seen evidence of a still-vibrant labor market, including a big upside surprise in monthly nonfarm payrolls, an unexpected jump in job openings, mild first-time unemployment claims and annualized wage growth running at about +4% — well above its longer-term average of +3.1% (Figure 1). Additionally, last week brought tidings of a robust holiday shopping season that confirmed ongoing consumer resilience, as December's retail sales growth came in at +3.9% year over year. One key data point that bucked the warming trend was inflation as measured by the core Consumer Price Index, which was flat in December, and, at +3.2% year over year, slightly cooler compared to November (+3.3%).

This benign inflation print came at midweek and provided some relief to both equity and fixed income markets: The S&P 500 Index posted its best one-day return since the day after Donald Trump's election win and helped the index avoid a third consecutive negative week. In the bond market, the 10-year U.S. Treasury yield declined from a more than 14-month closing high of 4.79% at the start of last week to end at 4.61%. The durability of disinflationary signals will be put to the test in the weeks and months ahead. In the meantime, the broader warm front in the economy isn't likely to inspire a substantially dovish shift in the U.S. Federal Reserve's interest rate outlook.

Saira Malik, CFA
Head of Nuveen Equities and Fixed Income, Chief Investment Officer

On behalf of Nuveen's Global Investment Committee

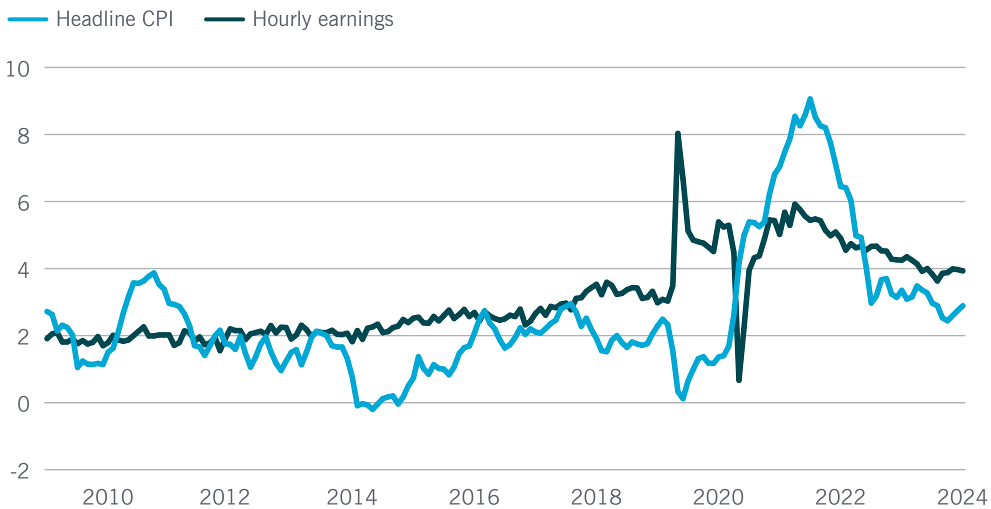
As Head of Equities and Fixed Income, Nuveen's CIO and leader of our Global Investment Committee, Saira drives market and investment insights, delivers client asset allocation views and brings together the firm's most senior investment leaders to deliver our best thinking and actionable investment ideas.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

The other source of rising temperatures in the current environment is corporate earnings season, which got off to a hot start last week thanks to some impressive consensus-beating reports from the first group of S&P 500 companies to announce their fourth-quarter results. Investors are hoping the good news continues as the reporting cycle progresses, as stronger earnings can help grow the denominator in the price-to-earnings (P/E) ratio of U.S. stocks — which in turn should support further upside in equity market performance.

The durability of disinflationary signals will be put to the test in the weeks and months ahead.

FIGURE 1: LAST MILE OF INFLATION: KEEPING AN IRON IN THE FIRE

Headline CPI and hourly earnings (year-over-year, %)



Data sources: U.S. Bureau of Labor Statistics, FactSet, as of 31 Dec 2024.

Portfolio considerations

Earnings seasoning added to ingredients for equity performance. After a less than satisfying first half of January, U.S. equity investors welcomed the boost that several U.S. banks and asset managers delivered last Wednesday via their consensus-topping quarterly earnings results.

Companies in the financials sector, generally among the first to report during earnings season, could set the tone for other sectors. According to FactSet's most recent projections, communication services and financials will exhibit the strongest fourth-quarter earnings per share (EPS) growth, while energy is poised for the weakest showing.

EPS for the S&P 500 Index as a whole is expected to grow +11.7% year over year (Figure 2). That's a meaningful increase over the prior quarter (+9.0%). This could be critical to how the U.S. market progresses in 2025. Higher EPS growth is needed if the S&P 500's elevated valuations — currently over 21x per the index's next-12-months P/E ratio — are to begin looking more reasonable compared to their 5-year average of 19.7x and 10-year average of 18.2x.

Yet guidance has been notably cautious, with 71 companies issuing negative EPS guidance to date, exceeding the five-year average of 56 companies at this point in the earnings season. Only 35 companies have provided positive guidance, fewer than the five-year average of 42, suggesting widespread conservative outlooks.

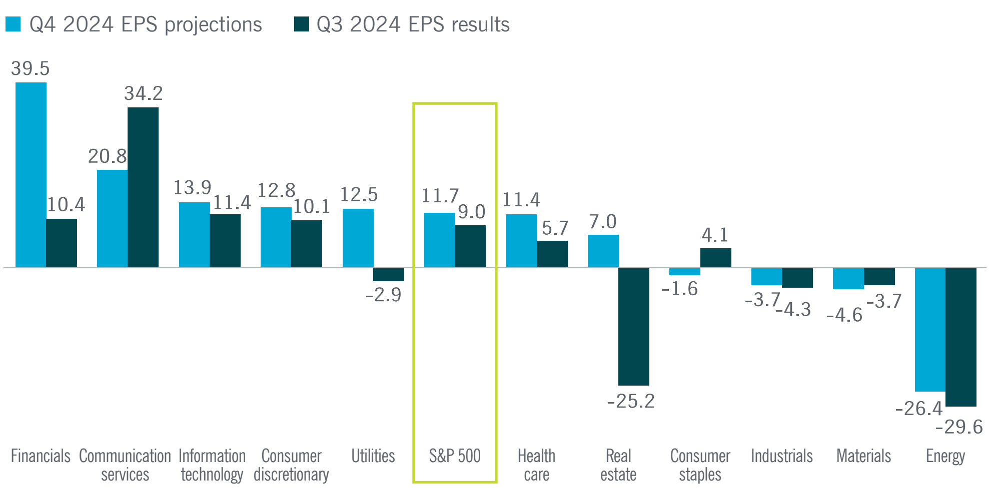
These results and forecasts highlight the complex economic and market environment in which investors are weighing earnings against the prospect of fewer Fed rate cuts this year and potentially inflationary fiscal policies under the incoming Trump administration. Similarly, companies are assessing possible tailwinds from lower corporate taxes and looser regulations versus anticipated headwinds such as higher tariffs and restricted immigration.

On balance, we believe fundamentals still point to a robust earnings growth outlook for the year ahead. FactSet currently foresees overall EPS growth of +14.8% for 2025. Although we think that estimate will be revised lower (which is typical following the holiday season), our view on equities remains cautiously optimistic.

We believe fundamentals still point to a robust earnings growth outlook for the year ahead.

FIGURE 2: EARNINGS COULD BE CRITICAL TO MARKET PERFORMANCE IN 2025

Q4 2024 earnings growth projections vs. Q3 2024 earnings results (%)



Data source: FactSet, 10 Jan 2025. **Performance data shown represents past performance and does not predict or guarantee future results.**

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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