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CIO Weekly Commentary
30 September 2024

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

A bigger field can boost securitized yield

Bottom line up top

As rates descend, the economy remains aloft. Markets were buoyant last week as the first batch of meaningful macroeconomic data since the Federal Reserve launched its new easing cycle showed a U.S. economy generally steering clear of downdrafts. The final estimate of second-quarter GDP confirmed healthy 3% economic growth, while August durable goods orders and weekly first-time unemployment claims came in better than expected. Capping off the week, Friday's release of the Personal Consumption Expenditures (PCE) Price Index proved benign, with August's headline 12-month reading at 2.2% — down slightly from July and the lowest rate since February 2021. Core PCE (which excludes volatile food and energy costs and is the Fed's preferred inflation barometer) was in line with consensus forecasts at 2.7%. As inflation continues to move closer to the Fed's 2% target, the central bank has more breathing room to continue lowering interest rates should the data warrant.

As summer ends, equities maintain above-average trends. Barring an unforeseen market shock prior to today's close, monthly S&P 500 Index returns for both August and September will handily outpace their 30-year averages, as will the index's year-to-date gain versus its 30-year YTD average (Figure 1). The S&P 500 has hit several dozen new record highs in 2024, driven by a confluence of factors: disinflation, rate cut expectations, artificial intelligence (AI) fervor and a broadening of stock market leadership amid slowing economic growth. The first half of the year was dominated by surging megacap technology names, while more defensive areas of the market began to rally (and outperform) toward the end of the second quarter. It's worth

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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.

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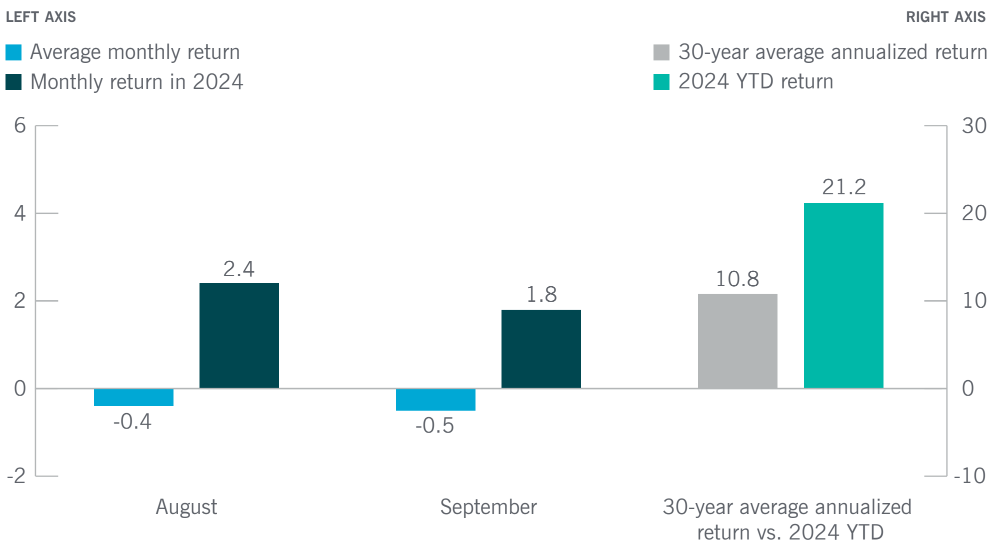
noting that the passing of the market leadership torch hasn't meant losses for technology shares. In fact, on a year-to-date basis, returns of both the utilities (defensive) and information technology (growth) sectors have approached +30%.

Equity markets have been surprisingly robust this year amid moderating but still-solid economic growth.

With that in mind, investors may be looking to lock in some robust equity gains and rebalance their portfolio allocations. We see attractive investment opportunities in a number of asset classes, including taxable fixed income, that may help them do so.

FIGURE 1: AN AUGUST AND SEPTEMBER TO REMEMBER

S&P 500 Index % returns: 2024 vs. 30-year average



Data source: Morningstar Direct. Average historical returns from 1994 to the present. 2024 September and 2024 YTD returns as of 26 Sep, 2024.
Past performance does not predict or guarantee future results.

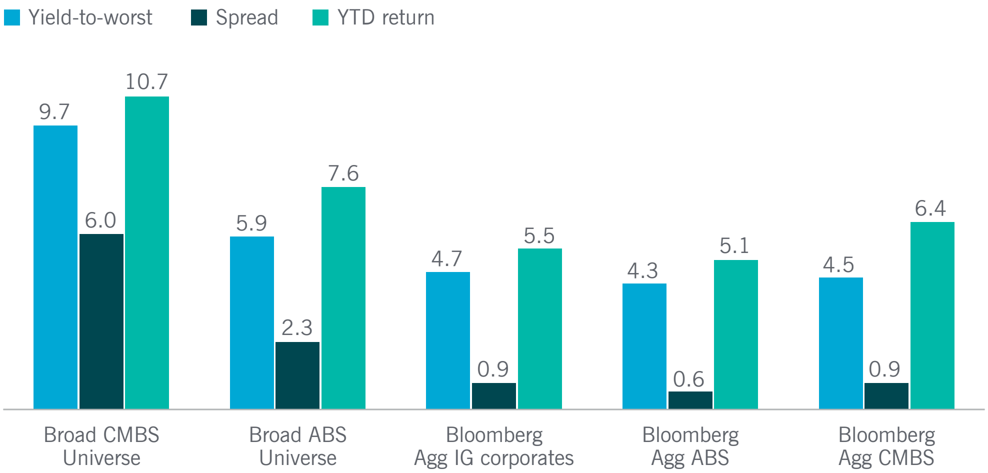
Portfolio considerations

For many investors and portfolio managers, the Bloomberg U.S. Aggregate Bond Index (or "Agg"), represents a broad-based proxy for the U.S. investment grade fixed income universe, and serves as the benchmark against which core bond portfolio performance is compared.

Securitized assets are an important sector within the Agg, accounting for 27% of its total market value. The sector is dominated by agency-guaranteed **mortgage-backed securities (MBS)** that are high in quality but tend to offer narrow spreads over Treasuries. In addition to agency MBS, the Agg's securitized sector includes **commercial mortgage-backed securities (CMBS)** and **asset-backed securities (ABS)**, although many issues in these two areas of the market are excluded from the Agg due to their small issue size. We believe that allocating to CMBS and ABS that are not part of the Agg can widen the opportunity set, creating the potential for additional returns. Among securities included in the Agg, CMBS has returned +6.4% year-to-date, and ABS +5.1% — certainly strong gains. But the broader, out-of-benchmark CMBS and ABS categories, as measured by ICE BofA indexes, are up even more, returning +10.7% and +7.6%, respectively, year-to-date.

The CMBS and ABS sectors of the market can offer good value — especially if investors look outside the usual benchmarks.

FIGURE 2: ATTRACTIVE OPPORTUNITIES IN SECURITIZED ASSETS EXIST BEYOND THE USUAL INDEXES



Data source: Bloomberg, L.P. as of 23 Sep 2024. **Past performance does not predict or guarantee future results. Yield to worst** is the lowest potential yield that can be received on a bond without the issuer actually defaulting. **Spreads** reflect option-adjusted spreads to Treasuries. **Representative Indexes: Broad CMBS Universe:** ICE BofA AA-BBB US Fixed Rate CMBS Index; **Broad ABS Universe:** ICE BofA AA-BBB US Fixed Rate ABS Index); **Bloomberg Agg IG Corporates:** Bloomberg Aggregate Investment Grade Corporates Index; **Bloomberg Agg ABS:** Bloomberg Aggregate ABS Index; **Bloomberg Agg CMBS:** Bloomberg Aggregate CMBS Index. For additional term definitions and index descriptions, please access the glossary on nuveen.com.

Spreads in the broader CMBS and ABS universe are wider than those of other investment grade sectors of the fixed income market. As a result, they offer the potential for continued strong performance while providing investors with substantially elevated yields. The broad CMBS segment, for example, is yielding 9.7%, exceeding those of below-investment grade credit (such as senior loans and high yield corporates).

Within CMBS, we're finding opportunities in the private-label market. These single asset, single borrower deals derive their cash flows solely from one multifamily building (in a desirable geographic area). This allows managers with strong credit research teams to perform the necessary due diligence on these transactions. Seasoned CMBS tranches, which benefit from healthier credit profiles and are likely able to refinance into lower interest rates, are also worth monitoring.

On the ABS side, we see opportunities in esoteric securities backed by nontraditional assets. Deal sizes are usually smaller in this space, but they also typically provide somewhere between 75 and 125 additional basis points (bps) in yield compared to short-maturity corporate bonds. We prefer commercial ABS exposure in areas like fiber optic cable lines, data centers and cell towers.

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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. Debt or fixed income securities are subject to market risk, credit risk, interest rate risk, call risk, tax risk, political and economic risk, and income risk. As interest rates rise, bond prices fall. Credit risk refers to an issuer's ability to make interest payments when due. Asset-backed and mortgage-backed securities are subject to additional risks such as prepayment risk, liquidity risk, default risk and adverse economic developments.

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