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CIO Weekly Commentary
14 August 2023

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Markets hang on as summer rumbles along

Bottom line up top

- **Markets aren't just going through the motions.** Extreme thrill ride enthusiasts might beg to differ, but for risk assets, especially U.S. equities, this summer's market action has proved to be more "coaster" than coasting. That's a notable change from this past spring: In the eight weeks leading up to June, the S&P 500 Index recorded just one weekly move of 1% or more in either direction. But since then, that smooth ride has gotten bumpier, with the index making moves of that scope in eight of the past 10 weeks.

- **More ups than downs.** Investor optimism has climbed amid a steady stream of data supporting the disinflationary trends of 2023. Last week's Consumer Price Index (CPI) report for July was the most recent highlight, confirming a welcome year-over-year deceleration in shelter costs, one of inflation's stickiest components, to the lowest rate of increase since August 2022. And while gasoline prices jumped 5% from June to July, the cost of rent and used car prices continued to ease. Good news on inflation, combined with healthy consumer balance sheets and rising business confidence, suggest there could still be a soft landing at the end of this ride. In fact, the latest NFIB Small Business Optimism Index showed that "interest rates" and "poor sales" ranked among the least of small-business owners' concerns (Figure 1).

- **The Fitch downgrade isn't a scream-worthy plunge.** While any lowered assessment of the U.S. government's creditworthiness by a major ratings agency should be taken seriously, Fitch's action need not cause undue alarm. Government debt and fiscal responsibility may be a perennial topic of debate for pundits and politicians, but in

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On behalf of Nuveen's Global Investment Committee

As 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.

our view, monetary policy is a more important and impactful driver of financial markets. Although U.S. equities have been more volatile and U.S. Treasury yields have moved higher since the downgrade, resilient economic growth and deep, liquid capital markets continue to underpin the U.S. government's ability to meet its debt obligations. This should ultimately inspire more confidence than consternation.

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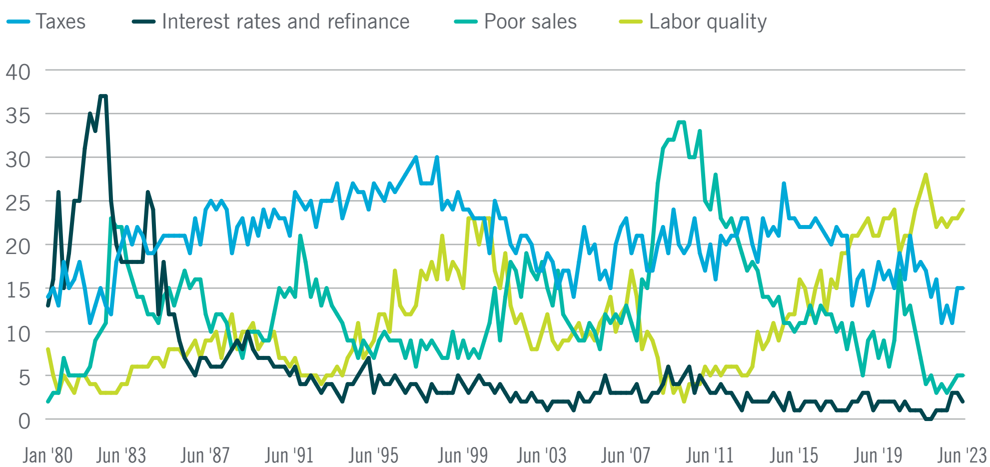
FIGURE 1: LABOR MARKET REMAINS TOP CONCERN FOR SMALL BUSINESSES, WHILE RATES REMAIN BOTTOM

NFIB Small Business Optimism Index, selected single most important problem (%)



Data source: Bloomberg L.P., 31 Dec 1979 - 30 Jun 2023. Quarterly data.

Portfolio considerations

Demand despite downgrade should remain strong. We don't think the U.S. will struggle to find buyers for Treasury securities, which could cause yields to rise. U.S. Treasuries still represent the world's largest, most liquid core fixed income market. Nor do we expect the Fitch decision to prompt the four largest holders of U.S. government debt, listed below, to alter their rationale for holding these securities:

- The **U.S. Federal Reserve** is under no obligation to adjust its holdings based on credit ratings.
- **U.S. banks** hold Treasuries to satisfy regulatory capital requirements and now must meet higher minimum levels following the collapse of several regional banks earlier this year.
- **Non-U.S. corporations** often purchase Treasuries with proceeds generated from doing business with U.S. customers, and we anticipate they'll continue to do so.
- **Private investors** will likely maintain their appetite for Treasuries, particularly as a safe-haven asset during times of market stress.

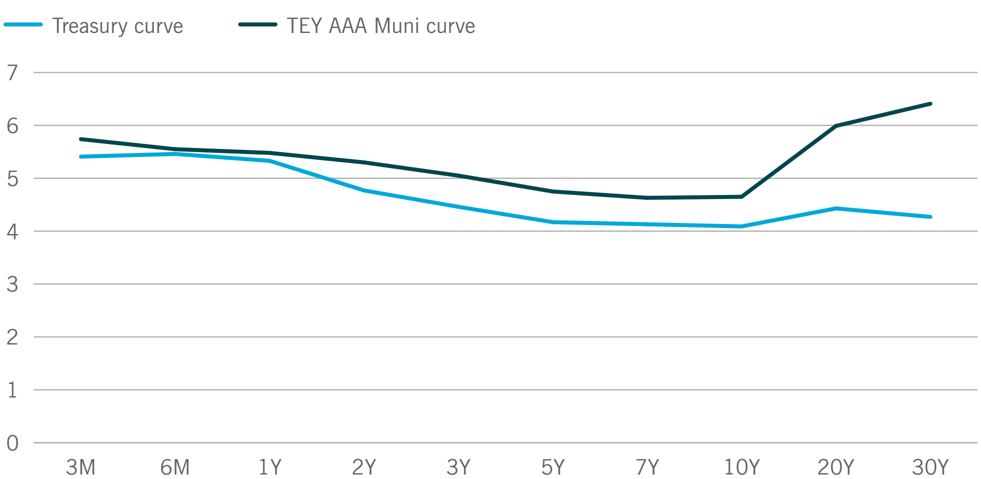
In the municipal space, we especially like credit exposure and extending duration.

Still giving credit its due. The underlying growth outlook for the U.S. economy remains positive, thanks to financially healthy consumers and solid levels of business investment — a combination that should keep corporate defaults low. These sound fundamentals, along with attractive yields, are why we continue to favor credit sector exposure across taxable fixed income. We are focused specifically on credits with durable free cash flow and solid balance sheets in high yield corporates, senior loans, emerging markets debt and preferred securities. Mid-quality segments (rated BBB and BB) are the most compelling.

Munis maintain their fundamental yield appeal. Municipal bonds — such as those that finance infrastructure projects — are issued and funded at the local, not federal, level. Since they have no connection to the U.S. government, their creditworthiness and demand/supply dynamics shouldn't be affected by the Fitch downgrade. In the municipal space, we especially like credit exposure and extending duration. The AAA municipal curve on a taxable-equivalent yield (TEY) basis is steeper than the U.S. Treasury curve. We believe this makes the case for longer-duration, higher-yielding exposure (Figure 2).

FIGURE 2: MUNICIPAL CURVE FAVORS EXTENDING DURATION

U.S. Treasuries vs. AAA-rated municipal yield curve (%)



Data source: Bloomberg L.P., 07 Aug 2023. **Performance data shown represents past performance and does not predict or guarantee future results.** The taxable-equivalent yield (TEY) is based on the highest individual marginal federal tax rate of 37%, plus the 3.8% Medicare tax on investment income (the Net Investment Income Tax). Individual tax rates may vary.

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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All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such. For term definitions and index descriptions, please access the glossary on nuveen.com. **Please note, it is not possible to invest directly in an index.**

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. Debt or fixed income securities are subject to market risk, credit risk, interest rate risk, call risk, derivatives risk, dollar roll transaction risk and income risk. As interest rates rise, bond prices fall. Below investment grade or high yield debt securities are subject to liquidity risk and heightened credit risk. Foreign investments involve additional risks, including currency fluctuation, political and economic instability, lack of liquidity and differing legal and accounting standards. Asset-backed and mortgage-backed securities are subject to additional risks such as prepayment risk, liquidity risk, default risk and adverse economic developments.

Investing in municipal bonds involves risks such as interest rate risk, credit risk and market risk. The value of the portfolio will fluctuate based on the value of the underlying securities. There are special risks associated with investments in high yield bonds, hedging activities and the potential use of leverage. Portfolios that include lower rated municipal bonds, commonly referred to as "high yield" or "junk" bonds, which are considered to be speculative, the credit and investment risk is heightened for the portfolio. Bond insurance guarantees only the payment of principal and interest on the bond when due, and not the value of the bonds themselves, which will fluctuate with the bond market and the financial success of the issuer and the insurer. No representation is made as to an insurer's ability to meet their commitments.

This information should not replace an investor's consultation with a financial professional regarding their tax situation. Nuveen is not a tax advisor. Investors should contact a tax professional regarding the appropriateness of tax-exempt investments in their portfolio. If sold prior to maturity, municipal securities are subject to gain/losses based on the level of interest rates, market conditions and the credit quality of the issuer. Income may be subject to the alternative minimum tax (AMT) and/or state and local taxes, based on the state of residence. Income from municipal bonds held by a portfolio could be declared taxable because of unfavorable changes in tax laws, adverse interpretations by the Internal Revenue Service or state tax authorities, or noncompliant conduct of a bond issuer. It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager.

Nuveen, LLC provides investment services through its investment specialists.

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