

## CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

# AI: A crowded trade, but room to grow

## Bottom line up top

**Summertime blues for the jobs market:** U.S. investors returning to work last Tuesday — and perhaps looking to extend their vacation glow — were quickly snapped back to reality by a trio of downbeat data releases. On Tuesday, the Institute for Supply Management reported that manufacturing activity had contracted for the sixth straight month in August to 48.7 (readings below 50 indicate contraction).

The following day, July's Job Openings and Labor Turnover Survey revealed that job openings had decreased to 7.18 million, the lowest level since last September. This drop marked the first time since April 2021 that there were more job seekers (7.38 million) than open positions. Finally, Friday brought further confirmation of a decelerating U.S. jobs engine. Employers added a well-below-forecast 22,000 payrolls, totals for June and July were revised down by a combined 21,000 and the unemployment rate rose to 4.3%, the highest since late 2021 (Figure 1). Average hourly wages grew +0.3%, in line with expectations.

**Fed cuts on the horizon:** So how might the Federal Reserve feel about these results as it prepares for its 17 September meeting? Although inflation remains above the central bank's 2% target, the balance of risks seems to be sliding toward propping up the labor market. With nonfarm payrolls showing another small monthly gain, wages remaining modest and job openings sliding, the Fed can argue that labor market slack is emerging, while current policy is restrictive enough to guide inflation down. Such a backdrop would justify a 25 basis point rate cut, with an option to pause thereafter as additional data rolls in.



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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.

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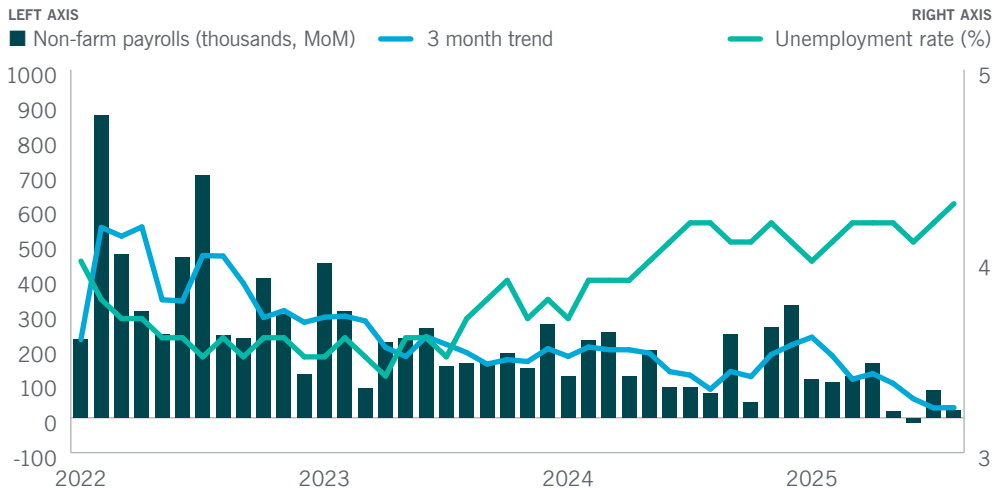
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***The weakening jobs market should provide more reason for the Fed to cut rates this month.***

For investors, we think a period of easier Fed policy could benefit the rate-sensitive technology sector and companies at the forefront of AI-driven innovation.

## FIGURE 1: THE LABOR MARKET IS GETTING SOFTER

*U.S. jobs growth and unemployment*



Data source: Bloomberg, L.P., Jan 2022 to Aug 2025.

## Portfolio considerations

With major equity market benchmarks at or near record peaks, investors may be wondering if they're experiencing "déjà vu all over again," in the immortal words of baseball great Yogi Berra. That's because just prior to the bursting of the dot.com bubble in 2000, many internet companies had sported blindingly high price-to-earnings (P/E) ratios.

Fast forward to 2025. Lofty valuations of tech stocks have triggered worries over bubbles and crowded trades, with market euphoria behind artificial intelligence (AI) powering the P/E ratio of the S&P 500's information technology sector to a 30% premium relative to its 10-year average on a 12-month forward basis. But whereas select 2000-era dot.coms didn't produce sufficient profits to justify their high multiples, today's tech companies have put up impressive earnings, fueled by massive capital spending (capex).

To illustrate, in the second quarter, the "Magnificent 7" stocks (Alphabet, Amazon, Apple, Meta Platforms, Microsoft, Tesla and Nvidia) delivered +26.6% year-over-year earnings growth, nearly double the +13.9% consensus forecast at the beginning of the quarter, according to FactSet.

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***Tech stock valuations may look lofty, but massive spending and healthy earnings remain tailwinds.***

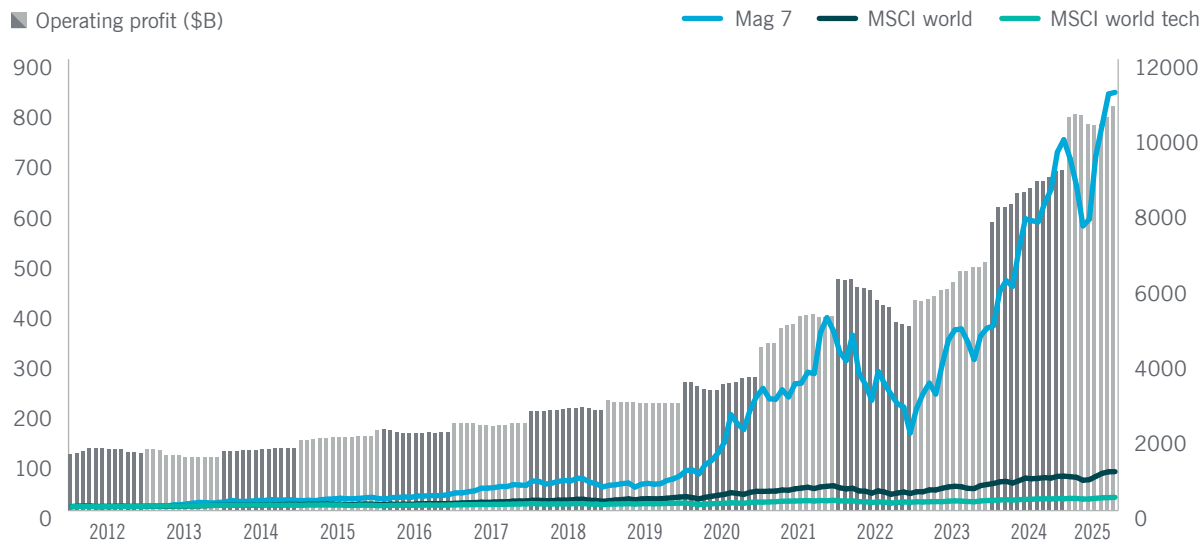
The Mag 7's operating profits have been stellar as well, rising nearly six-fold since 2012, with gains surging over the past three years (Figure 2).

Behind these numbers lies a wave of global capex spending that is likely just getting started. On the hardware side, AI infrastructure capex continues to jump, with estimates ranging between \$320 billion and \$375 billion in 2025, followed by a 10% to 15% increase in 2026. Software companies are also believers in AI's vast profit-posting potential, with infrastructure software – data and cloud platforms, in particular – remaining the most direct and potentially most data-sensitive way to invest, thanks to secular demand continuing to outpace expectations. Lastly, we expect the cybersecurity industry will benefit from AI-driven growth, as its sector-specific technology presents new complexities that will require novel, AI-leveraged tools.

Although AI valuations are historically high, they reflect tangible cash flows, global scale and secular drivers of long-term growth. And with double-digit earnings gains anticipated through mid-2026, U.S. tech stocks may not only continue to command but, more critically, justify their P/E premium.

## FIGURE 2: THE “MAGNIFICENT 7” CONTINUES TO CHARGE AHEAD

*Operating profit (\$B), and stock movements (relative index performance)*



Data source: FactSet, Dec 2012 to Aug 2025. **Performance data shown represents past performance and does not predict or guarantee future results.** Operating profit (depicted in the bar chart) reflects the Magnificent 7 concurrent consensus estimates from FactSet. Index returns (line graph) reflect the equal-weighted Mag 7 companies, the MSCI World Index and MSCI World Technology Index, all indexed to zero at Jan 2012.

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*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

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### Endnotes

#### Sources

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

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