

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Will stocks prove their rally is well-earned?

Bottom line up top

Way up or weigh down: that is the question. U.S. equities have been on an impressive run, with the S&P 500 Index posting gains on all but three of the past 11 trading sessions and delivering returns of +8.1% and +14.8%, respectively, for the third quarter and year-to-date period ended 30 September. The latest advance has come as investors weigh a number of uncertainties: (1) the U.S. government shutdown, (2) persistent tariff-related risks (with the latest being a potential increase on Chinese goods), (3) the durability of the artificial intelligence (AI)driven earnings cycle, and (4) the upcoming Q3 reporting season. Consensus estimates are for earnings per share (EPS) growth to come in at 8.1% year-over-year, fueled largely by the "Magnificent Seven" technology giants, with health care and other defensive names lagging. Despite high equity valuations, analysts haven't meaningfully revised forecasts downward, suggesting moderate confidence that tech strength can offset weakness elsewhere. Inflation risk, however, remains in the spotlight: Service-sector prices have proved sticky, and new tariffs could add up to 1% to 2% to inflation while trimming GDP growth.

Defying trends by defying gravity. Historically, the fourth quarter has been the strongest for the S&P 500, averaging a +5% total return since 1985. Whether that holds true this year remains to be seen, but during 2025 so far, the index has defied seasonal patterns, posting a loss in Q1 and outsized gains in Q2 and Q3 (Figure 1). Reverting to form in Q4 will likely depend on the Federal Reserve's next move, the resilience of corporate earnings and how long it takes the U.S. government to resolve its political stalemate.



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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.

Will the shutdown showdown mean a rate-cut slowdown?

The shutdown has created an air pocket in economic data, preventing the release of employment and inflation figures and complicating the Fed's easing path. Concerns that furloughed government workers won't receive back pay have prompted warnings that a prolonged disruption could weaken consumer confidence. Estimates suggest that each week of shutdown could cost the U.S. economy several billion dollars in output. The Fed enters the blackout period ahead of its 29 October meeting with limited incoming data, but we still expect as many as three rate cuts over the next 12 months, contingent on employment stability.

FIGURE 1: U.S. STOCKS HAVE HISTORICALLY OUTPERFORMED TOWARD YEAR-END

S&P 500 Index average quarterly returns since 1985 vs. 2025 YTD (%)



Data source: Bloomberg, L.P., 01 Jan 1985 – 30 Sep 2025. **Performance data shown represents past performance and does not predict or guarantee future results**. Representative index: S&P Total Return Index.

Portfolio considerations

Earnings growth versus macro crosscurrents. If analyst estimates are correct, Q3 will mark the ninth consecutive quarter of positive earnings growth. Deviating from the norm, quarterly earnings estimates have actually been revised upward for the first time since late 2021. This anomaly suggests greater confidence in underlying companies despite geopolitical and policy uncertainty. Revenue growth forecasts of +6.3% and net profit margins of +12.7% add to the positive picture of corporate profitability. Importantly, corporate sentiment has also improved, with 56 companies issuing positive earnings guidance as of the start of October. That's the highest number in four years, but it matches the number issuing negative guidance, highlighting the current mix of optimism and caution.

We expect the Fed will continue on its slow path of rate cuts, but the shutdown could complicate its decisions.

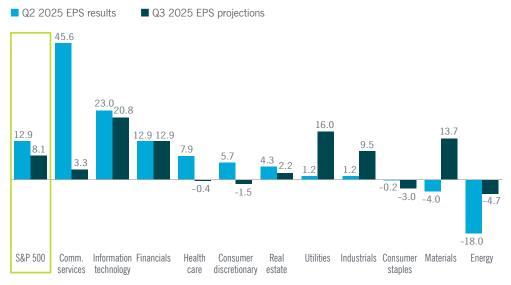
Sector-level expectations are bifurcated into clear leaders and laggards (Figure 2). Information technology tops all S&P 500 sectors with estimated earnings growth of +20.8%, reflecting continued strength in software, semiconductors and AI-related infrastructure. Utilities (+16.0%) and materials (+13.7%) also show solid momentum over the prior quarter, boosted by rapidly increasing demand for power generation and infrastructure. In contrast, earnings for energy (-4.7%) and consumer staples (-3.0%) are pressured by lower commodity prices and muted demand, respectively.

As the Q3 reporting season progresses, several macro factors are likely to shape earnings growth prospects for Q4 and beyond. Expanded deregulation under the Trump administration, for example, could continue to reduce compliance costs, particularly in the financials sector, while stimulating mergers and acquisitions (M&A) activity. Meanwhile, though AI-driven capital expenditures have continued to surge, some investors are seeking evidence of actual productivity benefits and a positive return on investment, possibly tempering the tech stock boom. And higher electricity costs linked to AI and data center expansion may put a dent in both corporate margins and household budgets.

On balance, while the S&P 500's forward price-to-earnings (P/E) ratio of 22.9x remains well above historical norms, consistent earnings growth and an improving macro backdrop support a cautiously optimistic view on U.S. equities heading into late 2025 — but disparate outlooks among and within sectors will require an emphasis on selectivity.

FIGURE 2: EARNINGS REMAIN A CRITICAL FACTOR DRIVING EQUITY MARKET PERFORMANCE

Q2 2025 earnings results vs. Q3 2025 earnings growth projections (%)



Data source: FactSet, 08 Oct 2025. Performance data shown represents past performance and does not predict or guarantee future results.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

03 | CIO Weekly Commentary 13 October 2025

Equity valuations are lofty, but revenues, profits and earnings growth could all continue to provide decent tailwinds.

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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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