nuveen
A TIAA Company

CIO Weekly Commentary
24 June 2024

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Votes, valuations and non-U.S. equities

Bottom line up top

One world, billions of decisions. It's already been a busy election year outside the U.S., and there's much more politicking and persuasion on the way — including, of course, within the U.S. By the end of 2024, when all ballots are cast and counted across hemispheres, continents and countries, more than four billion people, representing close to half the world's population and 57% of global GDP, will have participated in national elections during the year (Figure 1). The implications for investors are critical, as roughly 70% of global equity market capitalization will be influenced by the economic, trade, regulatory, governance and sociopolitical changes these electoral outcomes may bring over the next several years.

No to the status quo? Most recently, we saw a decided rightward shift in the European Union Parliamentary elections, marking a blow to ruling centrist parties in some key EU member states. In response, French President Emmanuel Macron called for a snap national election at the end of June, with a 7 July runoff to determine the next prime minister. Dissatisfaction with a sluggish European economy has intensified, giving France's nationalist-populist parties an opportunity to reach for more power.

Similar threats to longtime incumbent leadership have materialized in places as diverse as India, Mexico and South Africa. Those elections, while in the rearview mirror, will help shape the political road ahead. And elections set for 4 July in the United Kingdom are widely expected to mark an end to 14 years of Conservative Party rule, with consequences for developed markets in the second half of 2024. Beyond elections, geopolitical risks, such as the newly inked defense pact between Russia and North Korea, are worth watching.

Saira Malik, CFA
Chief Investment Officer

On behalf of Nuveen's Global Investment Committee

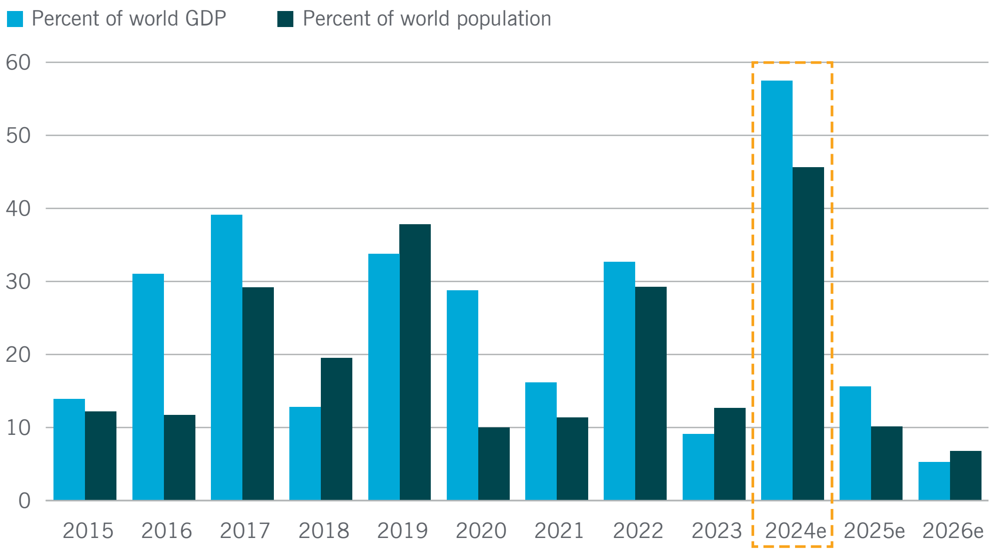
As Nuveen's CIO and leader of our Global Investment Committee, Saira drives market and investment insights, delivers client asset allocation views and brings together the firm's most senior investment leaders to deliver our best thinking and actionable investment ideas. In addition, she chairs Nuveen's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

In the current market environment we see some compelling reasons to consider investment opportunities in select non-U.S. equity markets.

While politics and geopolitics can always lead to heightened uncertainty, in the current market environment we see compelling reasons to consider investment opportunities in select non-U.S. equity markets.

FIGURE 1: 2024 HAS UNUSUALLY HIGH ELECTION COVERAGE ACROSS THE GLOBE

Countries with national elections as % of world GDP and population



Data sources: Strategas Securities, 18 Jun 2024. GDP 2023-2026 uses IMF GDP and population estimates. Includes European Parliament elections. In most instances, for those countries with parliamentary republics or semi-presidential systems, the general elections are counted rather than the presidential elections.

Portfolio considerations

Many diversified equity allocations are weighted more toward the U.S., an emphasis we have favored over the past few years. Recently, however, we have become more comfortable with reducing our U.S. overweight and shifting into non-U.S. equity opportunities in both developed and emerging markets (EM). Factors supporting such a move include relative valuations based on forward price-to-earnings (P/E) ratios – a useful tool for identifying value. Currently, P/Es for non-U.S. equities look more attractive (less expensive) than those for their U.S. counterparts, which remain well above their long-term average (Figure 2). Of course, valuations can vary widely by individual markets and aren't the only criteria to consider when deciding where to allocate.

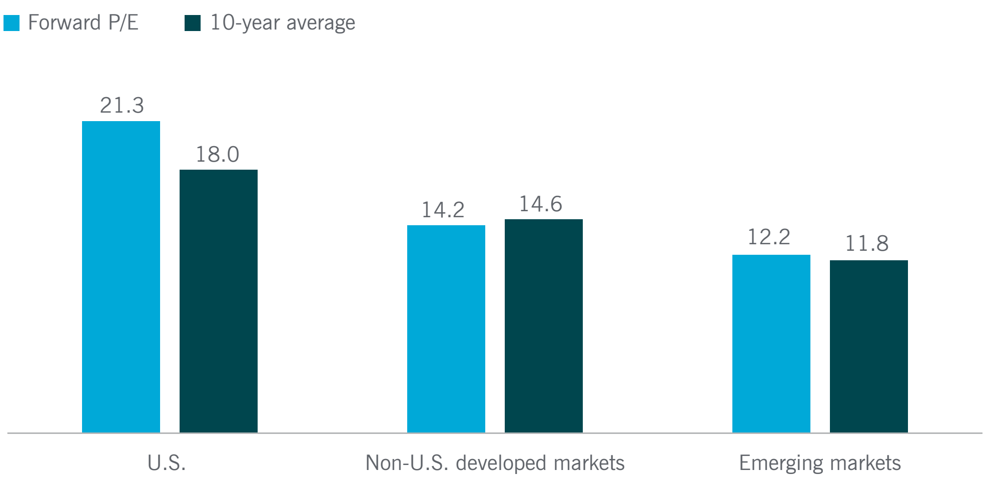
In terms of specific geographies, Japan (the world's second-largest developed market, behind only the U.S.) has benefited from a return to normalized monetary policy with the end of the Bank of Japan's yield curve control program, success in managing inflation and notable earnings improvement. In fact, corporate profits reached an all-time high in the first quarter of 2024, growing 15.1% year-over-year. And while the yen has fallen sharply versus the U.S. dollar and euro, this bolsters Japanese exports and tourism revenue. Equity gains in Japan this year have been led by large companies, driven by better corporate governance, higher returns on equity and fund flows from the recently launched NISA, a tax-advantaged savings account. While investor focus has favored large caps, small and mid caps appear attractively valued, given price-to-book ratios below 1x and large cash holdings.

Among EM equities, India has a forward P/E of 20.6x (about 10% higher than its 10-year average), which looks somewhat expensive. But several other factors enhance its appeal as a long-term investment destination, including favorable demographics, with a young population that many other large countries do not have. Additionally, the Indian economy's position at the lower end of the consumption curve ($2,400 per capita income) represents a huge opportunity, as discretionary consumption should continue to grow alongside GDP, which has expanded at an annual rate of nearly 6% over the past decade. Lastly, with the world's largest population and a massive labor force, India should be poised to benefit from a further de-emphasis of China in the global supply chain.

With the world's largest population and a massive labor force, India should be poised to benefit from a further de-emphasis of China in the global supply chain.

FIGURE 2: NON-U.S. EQUITIES ARE MORE ATTRACTIVELY VALUED

Forward price/earnings ratios vs. 10-year averages



Data source: Bloomberg, L.P., Nuveen, 17 Jun 2024. **Performance data shown represents past performance and does not predict or guarantee future results. Representatives indexes: U.S.:** S&P 500 Index; **Non-U.S. developed:** MSCI EAFE Index; **Emerging markets:** MSCI Emerging Markets Index.

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.

This material is not intended to be a recommendation or investment advice, does not constitute a solicitation to buy, sell or hold a security or an investment strategy, and is not provided in a fiduciary capacity. The information provided does not take into account the specific objectives or circumstances of any particular investor, or suggest any specific course of action. Investment decisions should be made based on an investor's objectives and circumstances and in consultation with his or her financial professionals.

The views and opinions expressed are for informational and educational purposes only as of the date of production/writing and may change without notice at any time based on numerous factors, such as market or other conditions, legal and regulatory developments, additional risks and uncertainties and may not come to pass. This material may contain "forward-looking" information that is not purely historical in nature.

Such information may include, among other things, projections, forecasts, estimates of market returns, and proposed or expected portfolio composition. Any changes to assumptions that may have been made in preparing this material could have a material impact on the information presented herein by way of example. **Performance data shown represents past performance and does not predict or guarantee future results.** Investing involves risk; principal loss is possible.

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. Equity investments are subject to market risk, active management risk, and growth stock risk; dividends are not guaranteed. Non-U.S. investments involve additional risks, including currency fluctuation, political and economic instability, lack of liquidity and differing legal and accounting standards. These risks are magnified in emerging markets. The use of derivatives involves additional risk and transaction costs.

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 solutions through its investment specialists.

This information does not constitute investment research as defined under MiFID.

1467232 GWP-3656050PG-E0624P