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CIO Weekly Commentary
25 November 2024

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Infrastructure for powering portfolios

Bottom line up top

A final flourish or a faltering fadeout? The S&P 500 Index is on track to return more than +25% for the second consecutive year, and four of the last six. But there is still more than a month to go in 2024 — an eternity for financial markets — which leaves plenty of time for U.S. equities to stumble before crossing the finish line. Investors would be well-advised to avoid complacency and stay mindful of risks that remain.

Inflation hasn't waved the white flag yet. Perhaps chief among these risks is the seemingly irrepressible threat of inflation, defiantly insisting "I'm not dead yet!" like an extra in a Monty Python scene. Although the U.S. Federal Reserve's historic tightening cycle slowed inflation, it remains well above the Fed's stated 2% target due to components such as stubbornly sticky shelter costs. Those costs may not be coming down any time soon, based on diminished supply. Last week's housing market data showed both housing starts and building permits for October falling short of consensus forecasts and nearing post-pandemic lows (Figure 1).

From bare cupboard to veritable cornucopia. Last week's relative dearth of market-moving macro data gives way this week to a heavy helping of economic reports. Consumer confidence for November, the second estimate of third quarter U.S. GDP growth and core Personal Consumption Expenditures (PCE) Price Index (the Fed's preferred measure of inflation) are among the deluge of data releases. More potentially portentous policy proposals from the incoming Trump administration could also influence investor sentiment and market performance during the holiday-shortened week. All told,

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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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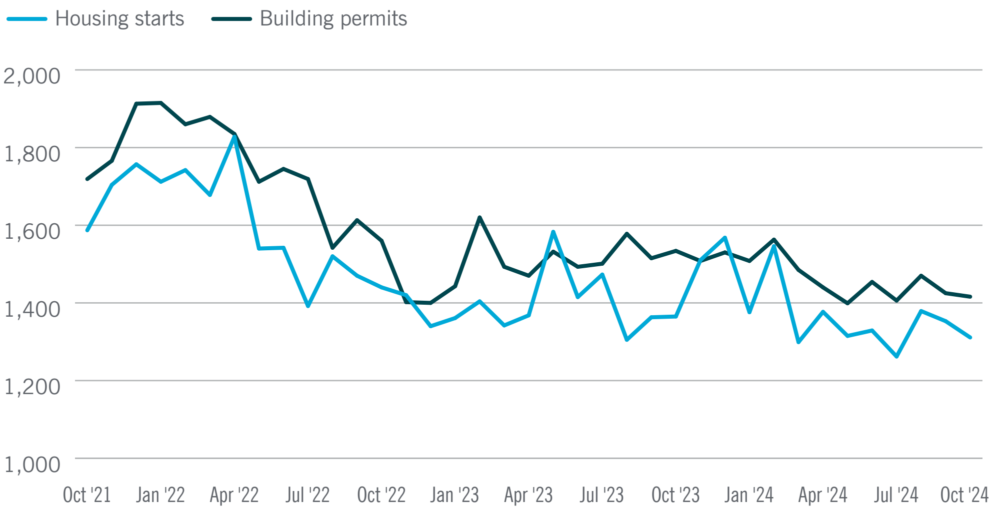
FIGURE 1: ELEVATED INTEREST RATES HAVE BROUGHT DOWN NEW SUPPLY OF HOUSING UNITS

Housing starts and building permits indexes (000s)



Data source: Bloomberg, L.P., 31 Oct 2024. **Representative indexes: housing starts:** U.S. New Privately Owned Housing Units Started By Structure Index; **building permits:** Private Housing Authorized By Building Permits By Type Index.

Portfolio considerations

As the incoming Republican-led administration prepares to reshape policy and legislative priorities, a host of political advisers, strategists, think tanks and interest groups are jockeying to be influencers and insiders. At the same time, many investors are actively looking to position their portfolios based on which campaign promises they think are most likely to become law in 2025 and beyond. Some market-moving policy changes are surely in store, creating potential benefits — or headwinds — across various asset classes and sectors. But we also see several investable markets that have historically provided all-weather characteristics.

Publicly listed real assets is one such area. Companies in this part of the economy may be able to produce favorable investment results in virtually any market environment, thanks to the inherently essential functions, services or resources they provide. From real estate to commodities to infrastructure, these investments have tended to offer diversification, attractive income generation and a better hedge against inflation than other asset classes.

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Listed **infrastructure** in particular remains one of our most favored areas, in the context of both (1) anticipated policy changes such as tax cuts, higher fiscal deficits and increased tariffs that could lead to stickier inflation; and (2) global mega themes associated with artificial intelligence (AI) and the corresponding growth in demand for power generation to support data centers. The proliferation of AI in the U.S. economy is expected to result in a nearly 40% increase in annual power demand between now and 2040.

This example shows how the structural trends of digitalization and electrification may make AI-related infrastructure development more insulated from shifting regulatory and policy backdrops in the near term. In the U.S., for instance, concerns that the incoming Republican Congress and administration will repeal parts or all of the Inflation Reduction Act (IRA) to fund proposed tax cuts may be somewhat overdone. While certain spending and incentives (e.g., electric vehicle tax credits) within the IRA may be cut or allowed to sunset, the legislation's impact on government infrastructure spending has so far favored red (Republican) states over their blue (Democrat) counterparts (Figure 2). Additionally, an "America First" fiscal policy is likely to benefit U.S. infrastructure investment for years to come.

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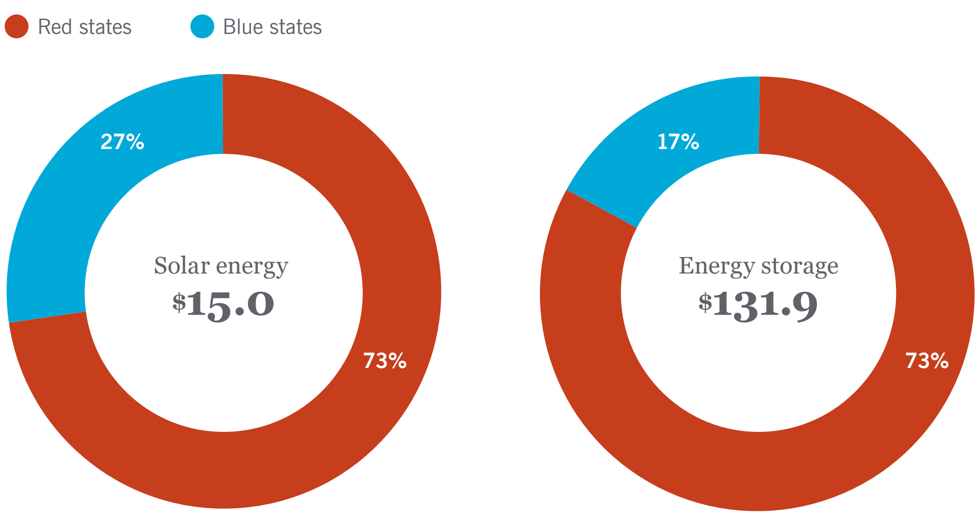
FIGURE 2: CLEAN ENERGY INVESTMENT HAS BENEFITED RED STATES MORE THAN BLUE

Federal spending since 2021 ($B)



Data source: Evercore ISI, 06 Nov 2024.

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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. A focus on dividend-paying securities presents the risks of greater exposure to certain economic sectors. Dividend yield is one component of performance and should not be the only consideration for investment.

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. It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager.

Because infrastructure portfolios concentrate their investments in infrastructure-related securities, portfolios have greater exposure to adverse economic, regulatory, political, legal, and other changes affecting the issuers of such securities. Infrastructure-related businesses are subject to a variety of factors that may adversely affect their business or operations, including high interest costs in connection with capital construction programs, costs associated with environmental and other regulations, the effects of economic slowdown and surplus capacity, increased competition from other providers of services, uncertainties concerning the availability of fuel at reasonable prices, the effects of energy conservation policies and other factors. Additionally, infrastructure-related entities may be subject to regulation by various governmental authorities and may also be affected by governmental regulation of rates charged to customers, service interruption and/or legal challenges due to environmental, operational or other mishaps and the imposition of special tariffs and changes in tax laws, regulatory policies and accounting standards. There is also the risk that corruption may negatively affect publicly funded infrastructure projects, especially in emerging markets, resulting in delays and cost overruns. In addition, investing internationally presents certain risks not associated with investing solely in the U.S., such as currency fluctuation, political and economic change, social unrest, changes in government relations, differences in accounting and the lesser degree of accurate public information available, foreign company risk, market risk and correlation risk. It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager.

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