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CIO Weekly Commentary
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CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Oasis or mirage? Equities ponder the economic horizon

Bottom line up top:

What investors think they see might not be what they get. Against a macro backdrop that continues to fluctuate between marginally negative and incrementally positive, some investors may be positioning too soon for greener pastures, considering the still-challenging equities environment that's likely to persist into 2023.

- U.S. Federal Reserve Board Chair Jerome Powell's speech at the Brookings Institution last week signaled a deceleration in rate hikes, perhaps as early as this month. U.S. equities reacted exuberantly to Powell's comments, with the S&P 500 Index jumping 3% on the day, similar to what we've seen in this year's previous bear market rallies. But even if Powell's projection comes to pass, there's no clarity on the timing of the path down from a terminal rate that's largely expected to reach 5% by May 2023.
- The S&P 500 has struggled to climb out of the bear's den on several occasions since falling into it back in June, but each attempt has been thwarted by the stark realization that the Fed's war on inflation is far from over.
- Inflation remains unacceptably high even as some disinflationary pressures appear to be taking hold.
- The U.S. labor market is showing signs of loosening — evidenced by a decrease in job openings per the latest JOLTS survey and a slow but steady rise in weekly unemployment claims. However, conditions still look tight overall, made clear by Friday's release of stronger-than

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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.

expected job and wage growth data for November.

- While still positive, U.S. economic growth has slowed on an annualized basis. As of 1 December, the Federal Reserve Bank of Atlanta's GDPNow tracker pegged Q422 annualized growth at 2.8%, down from a pre-Thanksgiving 4.3%. This is not an "official" estimate, but the Atlanta Fed's model has proven fairly reliable at tracking growth in real time as various economic data points come in.

The bear tracks aren't moving in a definitive direction. Nuveen created a Bear Tracker model in July to help assess when an end to the U.S. equity bear market may be imminent. The tracker monitors six key factors that have frequently shown inflection points near the bottom of past bear markets: valuations, earnings, Fed policy, manufacturing activity, market breadth and bond spreads. Based on our tracker readings (see figure on page 3) and in the context of recent Fed rhetoric and market behavior, it's difficult to declare with certainty whether U.S. equities have already hit bottom or may stumble further before finding the strength and stamina to outrun the bear at last. In the meantime, we think that the market is likely to be range-bound, with relative dips and rallies in the near- to medium-term as uncertainties continue to manifest heading into 2023.

Earnings estimates for next year look unrealistic. Bear-market bottom or not, the forecasted earnings growth rate for 2023 is still positive, currently exceeding 5%. In our view, this doesn't accurately reflect the difficulties that lie ahead for equities as elevated interest rates continue to slow economic growth. Downward revisions to earnings estimates from here may spell an end to the recent resilience of equity markets.

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Portfolio considerations:

Our base case calls for a continued deceleration of inflation through the first half of next year, although it should remain elevated and well above the Fed's 2% target. Price disinflation is likely to translate into lower corporate revenues, sparking another possible leg down for equities. Our preference for quality and dividend growth stocks reflects this scenario. We also suggest reducing cyclicality by increasing exposure to infrastructure, which is often capable of growth through economic slowdowns thanks in part to inelastic demand for the necessary services these businesses typically provide.

Additionally, with the bulk of interest rate hikes behind us, we think it makes sense to modestly increase duration through bolstering core bond allocations. We specifically like investment grade credit, which is yielding above 5%. This should provide a cushion against any spread widening that may come as we potentially enter a mild recession next year. We also remain favorable on municipal bonds; they look particularly undervalued given strong fundamentals.

THE NUVEEN BEAR TRACKER

As of 30 November 2022			Signaling a near-term bottom?
VALUATIONS	*S&P 500 Index forward price/earnings ratio*		Rapid valuation adjustment, but yet to reach levels of past bear markets
	Level at start of '22 bear market	21.5	
	Current level	17.8	
	Change (%)	-17.5%	
EARNINGS	*S&P 500 Index forward earnings per share*		Has been revised down but remains positive
	Level at start of '22 bear market	$223	
	Current level	$230	
	Change (%)	+3.1%	
U.S. FEDERAL RESERVE POLICY	*Fed funds rate*		Fed Chair Powell indicated a potentially smaller rate hike in December, but no near-term pause in sight
	Level at start of '22 bear market	0.25%	
	Current level	4.00%	
	Change (net)	+3.75%	
MANUFACTURING ACTIVITY	*ISM New Orders Index:*		Fell further into contraction in November, but yet to reach levels of prior bear markets
	Level at start of '22 bear market	61.0	
	Current level	47.2	
	Change (net)	-13.8	
MARKET BREADTH	*% of S&P 500 Index members above their 100 week moving average:*		Breadth has rebounded after reaching a low of 24% in mid-October
	Level at start of '22 bear market	92%	
	Current level	55%	
	Change (net)	-37%	
BOND SPREADS	*Bloomberg U.S. high yield spread (bps)*		Narrow versus past bear markets, but yet to show signs of peaking
	Level at start of '22 bear market	278	
	Current level	448	
	Change (net)	+170	

Further away | Picture is mixed | Close to a bottom

Data source: Bloomberg L.P., 30 Nov 2022. **Performance data shown represents past performance and does not predict or guarantee future results.** Spreads represent Bloomberg U.S. Corporate High Yield Index option-adjusted spread to Treasuries. The views above are for informational purposes only and do not reflect the experience or performance of any Nuveen product, strategy or service.

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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. Diversification is a technique to help reduce risk. There is no guarantee that diversification will protect against a loss of income. Investing in municipal bonds involves risks such as interest rate risk, credit risk and market risk, including the possible loss of principal. 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. Credit ratings are subject to change. AAA, AA, A, and BBB are investment grade ratings; BB, B, CCC/CC/C and D are below-investment grade ratings. As an asset class, real assets are less developed, more illiquid, and less transparent compared to traditional asset classes. Investments will be subject to risks generally associated with the ownership of real estate-related assets and foreign investing, including changes in economic conditions, currency values, environmental risks, the cost of and ability to obtain insurance, and risks related to leasing of properties. Socially Responsible Investments are subject to Social Criteria Risk, namely the risk that because social criteria exclude securities of certain issuers for non-financial reasons, investors may forgo some market opportunities available to those that don't use these criteria. Investors should be aware that alternative investments including private equity and private debt are speculative, subject to substantial risks including the risks associated with limited liquidity, the use of leverage, short sales and concentrated investments and may involve complex tax structures and investment strategies. Alternative investments may be illiquid, there may be no liquid secondary market or ready purchasers for such securities, they may not be required to provide periodic pricing or valuation information to investors, there may be delays in distributing tax information to investors, they are not subject to the same regulatory requirements as other types of pooled investment vehicles, and they may be subject to high fees and expenses, which will reduce profits. Alternative investments are not appropriate for all investors and should not constitute an entire investment program. Investors may lose all or substantially all of the capital invested. The historical returns achieved by alternative asset vehicles is not a prediction of future performance or a guarantee of future results, and there can be no assurance that comparable returns will be achieved by any strategy.

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