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CIO Weekly Commentary
25 April 2022

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Earnings seasoned with a grain of salt

Bottom line up top:

1Q earnings: so far, pretty good. About 20% of S&P 500 companies have reported first-quarter results. Of those, 76% have met or exceeded expectations on revenue, and 82% on earnings (Figure 1). The blended earnings growth rate for the first quarter is currently 6.6%. Should that number stick, it would be the lowest since the fourth quarter of 2020. This week will be among the most closely watched of this earnings season, with companies representing about 50% of the S&P 500's market cap reporting.

What we're watching. The overall earnings tone has been positive, initially supporting markets, but last Thursday's comments from the Fed signaling more aggressive rate hikes overshadowed strong corporate results. Looking toward the coming quarters, our investment teams are focused on several key earnings-related issues, including:

- **Peaking margins and the importance of pricing power.** Expectations for double-digit revenue growth, but only 5% EPS growth, suggest margins may have peaked (Figure 2). Companies that have benefited from pricing power advantages to protect or grow margins in an inflationary, supply-constrained environment could see that change if they experience pushback on price hikes. Forward guidance should shed some light on this.
- **EPS growth: back-end loaded?** Analyst expectations for the full year appear to be relying on a strong finish to make up for earlier relative weakness. That means downward revisions could become a problem if the U.S. consumer starts to waver, supply chains remain under pressure due to China's zero-Covid policy or Fed rate hikes curtail demand too much.

Conviction among the caveats. Not all earnings are created equal. That leads us to favor areas like energy, materials, technology and growth-oriented consumer discretionary companies.

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.

U.S. corporate earnings have started off well, but there are possible risks we need to watch.

FIGURE 1: EARNINGS SCORECARD SHAPING UP NICELY. SO FAR.

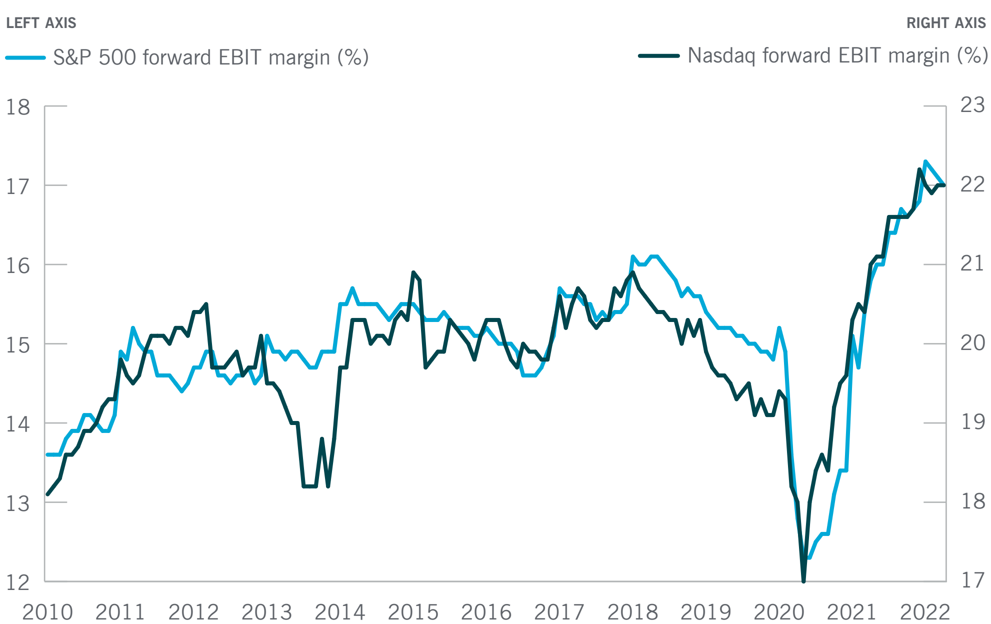
Percentage of S&P 500 companies reporting revenue and earnings above or in line with expectations

91-100% | 81-90% | 71-80% | 51-70% | 50% or below

Sector	Number of companies	Revenue	EPS
Overall	98	76.5%	81.6%
Materials	5	100.0%	80.0%
Industrials	14	85.7%	85.7%
Consumer staples	9	88.9%	100.0%
Energy	4	75.0%	75.0%
Technology	10	90.0%	70.0%
Consumer discretionary	10	80.0%	60.0%
Communications	4	75.0%	100.0%
Financials	30	60.0%	83.3%
Healthcare	8	75.0%	87.5%
Utilities	2	50.0%	50.0%
Real estate	2	100.0%	100.0%

Data source: Bloomberg, L.P., reported results as of 22 Apr 2022.

FIGURE 2: NOT MUCH ROOM LEFT FOR MARGIN EXPANSION



Data source: Bloomberg, L.P., 29 Jan 2010 to 20 Apr 2022. **Past performance is no guarantee of future results.**

Portfolio implications

Inflation trends should benefit some areas more than others. So far, higher inflation has had a mixed impact on corporate earnings. Inflation could create more challenges down the road, as well as more opportunities. Higher energy and labor costs could hurt companies that lack pricing power, but we also think inflation-sensitive sectors such as energy and materials should benefit as revenues climb in part due to rising prices.

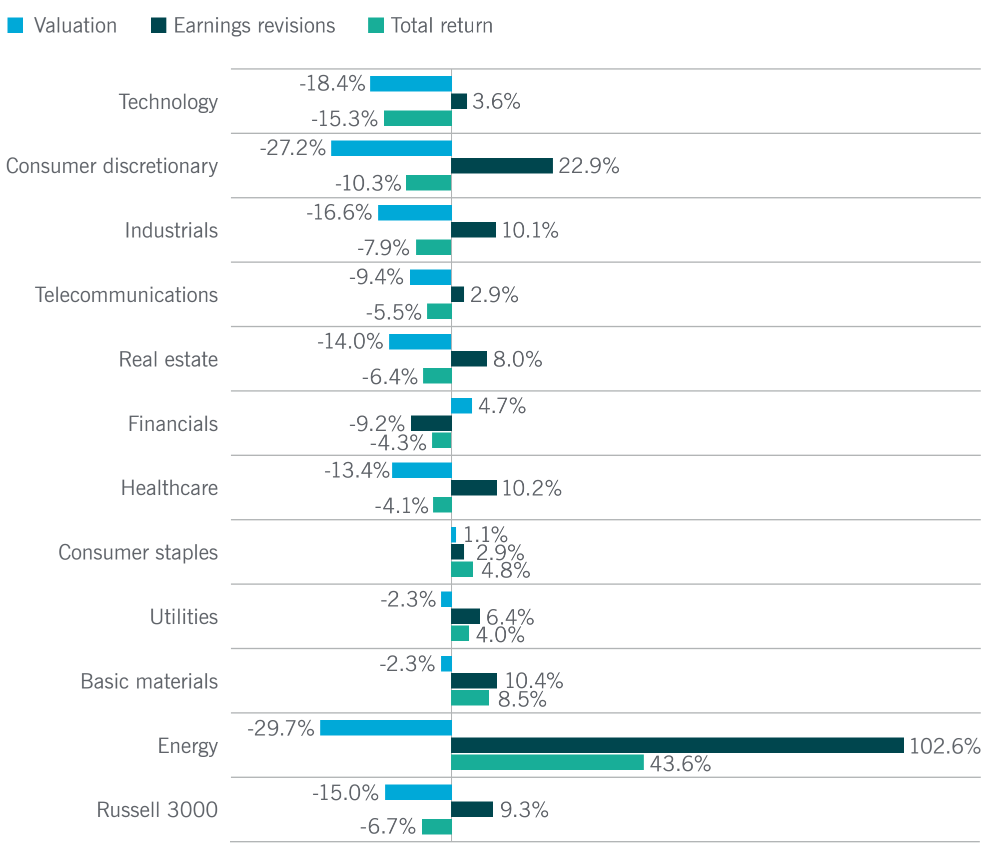
Shifting valuations are creating opportunities. There's been wide dispersion in valuation changes, earnings results and returns across sectors this year (Figure 3). Areas of the market with the most severe downward valuation adjustments, such as select growth-oriented companies in the consumer discretionary sector, appear the most intriguing. These companies should benefit from continued strong household balance sheets and climbing wages.

Positive earnings revisions should do the same. We think the technology selloff has set the table for stock pickers, and expect certain segments to experience positive earnings surprises over the rest of 2022. Of those, we prefer higher-quality growth companies with attractive free cash flow yields (such as select enterprise software names) over companies with high valuations in competitive industries that lack pricing power.

Earnings results so far suggest some sectors and areas of the market offer better value than others, making selectivity critical.

FIGURE 3: DIVERGENCE ACROSS SECTORS WARRANTS A CLOSE LOOK

YTD return breakdown, Russell 3000 sectors



Data source: Bloomberg, L.P., 01 Jan to 19 Apr 2022. **Past performance is no guarantee of future results.**

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

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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A word 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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