

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Stronger earnings point to emerging opportunities

Bottom line up top

U.S. equities end their earnings recession. The S&P 500 Index is on pace for positive quarterly earnings growth for the first time since the third quarter of 2022. With 92% of constituent companies reporting, third quarter earnings per share (EPS) is expected to show +4.1% growth, with eight of 11 sectors participating, mainly due to the 81% of companies that beat expectations. Positive earnings growth and increased optimism that the U.S. Federal Reserve will soon end its rate hiking cycle fueled a robust rally in the past two trading weeks. If the broad macroeconomic backdrop remains mostly benign, investors should be able to focus more on fundamentals, perhaps sustaining a classic Santa Claus rally into year-end.

Emerging opportunities may expand return potential. We see improved near-term prospects for continued U.S. equity gains, as economic data releases suggest declining inflation and a diminished need for Fed tightening. At the same time, however, the likelihood of a substantial slowdown or mild recession in 2024 bears close scrutiny, as another U.S. government shutdown looms, labor markets loosen (albeit moderately), credit use and delinquencies rise, and consumer activity slows. So, while the U.S. may offer a relative safe haven near term, investors should consider a broader horizon for diversification and potentially higher returns. In particular, select emerging markets (EM) countries and regions appear poised for economic outperformance, potentially supporting both fixed income and equity investments.



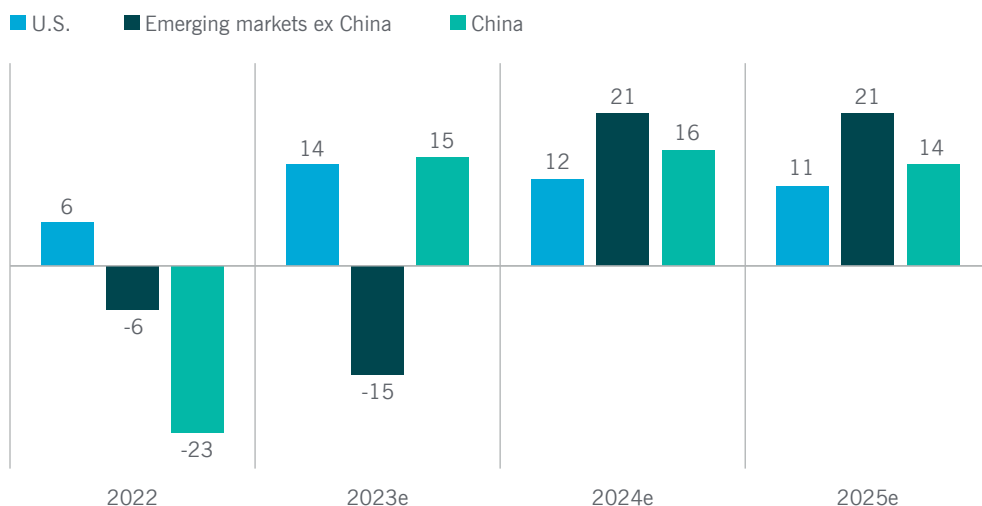
Saira Malik, CFA
Chief Investment Officer

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.

FIGURE 1: EMERGING MARKETS COULD DELIVER HIGHER EARNINGS GROWTH

Earnings growth, actual and forecast (%)



Data source: Bloomberg L.P., 11 Nov 2023. Performance data shown represents past performance and does not predict or guarantee future results. Representative indexes: U.S.: S&P 500; emerging markets ex-China: MSCI EM ex China; China: MSCI China.

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Portfolio considerations

The EM landscape isn't monolithic, but we're finding opportunities among economies where growth is outperforming expectations, while exercising caution toward those with sluggish macro conditions or thorny idiosyncratic risks. On the EM debt front, yields of roughly 10% help make the asset class more appealing than other credit sectors. Within sovereigns, we think both investment grade and high yield bonds are poised to do well heading into 2024. B/BB sovereign spreads are proving resilient, and in our view still offer good value thanks to strong technicals and fundamentals. Meanwhile, EM corporate spreads look compelling on a relative and historical basis versus their developed-market peers. As for EM equities, we see attractive valuations, healthy earnings estimates and, in many cases, improving corporate governance.

China: Too big to ignore, but it could use some polishing. China, the world's second-largest economy, makes up about 30% of the EM equities universe as measured by the MSCI Emerging Markets Index; 21% of outstanding EM corporate debt using the JPMorgan Corporate Emerging Markets Bond Index (CEMBI) as a proxy; and 7% of outstanding hard-currency sovereign debt based on the JPMorgan Emerging Markets Bond Index (EMBI). China's large representation in these benchmarks can make it challenging for investors to avoid the risks facing the country: a shaky property market, disappointing economic growth, geopolitical tensions that raise the prospect of international sanctions, lack of transparency in data and government policy, stimulus measures that have failed to excite financial markets, and — looking ahead to 2024 — corporate earnings growth that's

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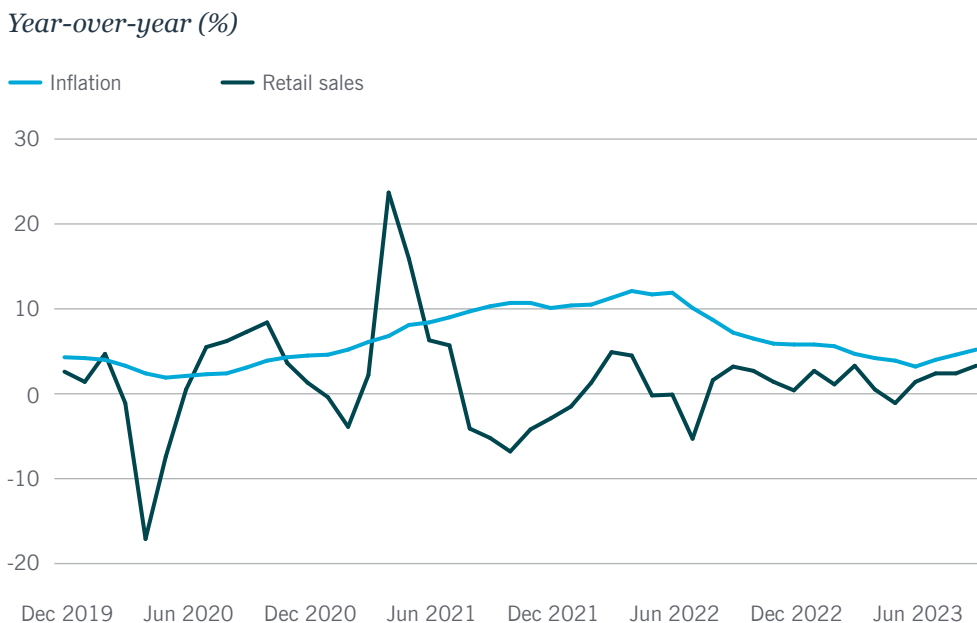
expected to lag non-China EMs by approximately five percentage points (Figure 1). All of these factors contribute to substantial active underweights in Chinese equities and fixed income across our EM strategies.

Warming up to Mexico. China’s opaque regulatory policies and procedures, Covid-driven lockdowns and geopolitical tensions have driven companies to shift their supply chains to other countries, with Mexico a primary beneficiary. An increasing number of U.S. businesses have been nearshoring (moving) certain operational functions there to take advantage of the country’s robust GDP growth, low unemployment and cooling inflation. Ease of transportation is also a major benefit, as well as substantial cost savings compared to China. Generating electricity in Mexico is about 4% cheaper, while the average price of natural gas and lease rates for industrial buildings are both 60% lower.

Mexico has become the largest U.S. manufacturing trade partner, and we expect its lead over China will continue to grow. We believe these favorable economic prospects warrant overweight allocations to Mexican equities and fixed income in global portfolios. Regarding fixed income, we’re constructive on sovereign and local-market debt, as well as corporate issues, where we favor select Mexican banks, cement manufacturers and auto parts suppliers.

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FIGURE 2: IN BRAZIL, INFLATION MODERATES WHILE RETAIL SALES RECOVER



Data source: Nuveen, 29 Sep 2023. Performance data shown represents past performance and does not predict or guarantee future results. Representative indexes: Inflation YoY: Brazil CPI IPCA YoY; Retail Sales YoY: Brazil Retail Sales Volume Monthly YoY Real.

Don’t blame it on Rio. Brazil remains a macroeconomic sweet spot, with better-than-anticipated GDP growth, moderating inflation and aggressively dovish monetary policy, made possible by being ahead of

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the curve on fighting inflation. Over the past year, Brazil's real interest rate has been among the highest in the EM sphere, and this is starting to show up in stronger economic data, such as reaccelerating retail sales in September (Figure 2).

Brazil's currency has held up well since the central bank started its easing campaign in August and hinted at more 50 basis points (bps) rate cuts to come, which would bring the real rate to about 7%. Although Brazilian equities have been outperforming the broader MSCI EM Index for some time, we see the potential for further outperformance as valuations remain cheap and companies offer a high return on capital.

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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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