

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Out with the old, in with the same old...for now

Bottom line up top:

New year, but little new to celebrate yet. Financial markets started the new year pretty much where they left off in 2022, when decades-high inflation and outsized interest rate hikes took a heavy toll on global investment performance. For the first time in recent history, U.S. equities and fixed income both declined more than 10% in the same year (Figure 1).

With few places to hide, investors found portfolio construction especially challenging, leading some to question whether the traditional 60/40 equity/fixed income portfolio mix had become obsolete. In the first few trading days of 2023, markets responded negatively to some of last year's lingering themes (tight labor market data) and positively to others (continued signs that inflation has peaked). For the time being, "good news is bad news" (and vice versa) will likely remain a driver of market behavior.

We expect a number of positive changes in 2023. Importantly, we anticipate a pause in rate hikes as the effects of the U.S. Federal Reserve's aggressive policy take hold, labor markets loosen and the U.S. experiences a short and shallow recession at some point. This year, we're less convinced we'll see an actual pivot in Fed policy, as Chair Jerome Powell and his colleagues have reiterated their commitment to keeping rates elevated.

We're 60% sure the 40% will outperform. Against this backdrop, we're cautiously optimistic that 2022's beaten-down risk assets will generally have a better 2023, with continued economic normalization



Saira Malik, CFA

Chief Investment Officer

On behalf of Nuveen's Global Investment Committee

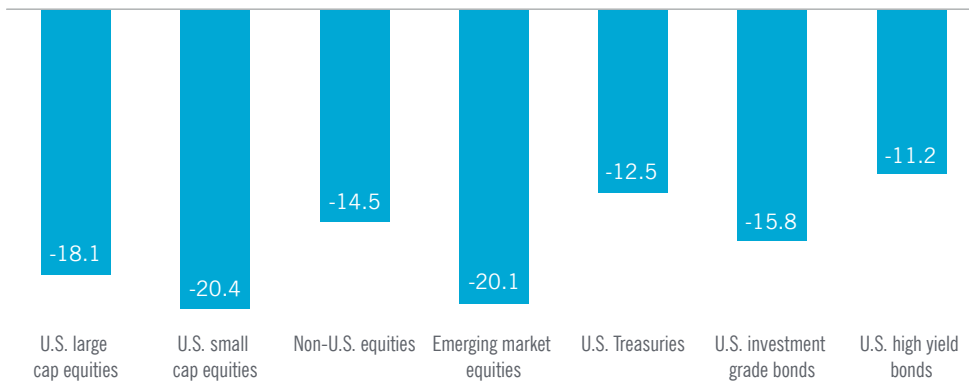
As Nuveen's CIO and leader of our Global Investment Committee, Saira drives market and investment insights, delivers client asset allocation views and brings together the firm's most senior investment leaders to deliver our best thinking and actionable investment ideas. In addition, she chairs Nuveen's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

supporting the traditional 60/40 split. Equity market volatility will likely persist throughout much of the year, with earnings downgrades posing a significant risk. During the second half of 2023, we see a potential for improved equity performance. Meanwhile, fixed income markets may be poised to provide better risk-adjusted total returns than equities, with the end of rate increases finally on the horizon.

Investors may be questioning whether the traditional 60/40 portfolio mix has become obsolete.

FIGURE 1: 2022 WAS AN UGLY YEAR ACROSS THE BOARD

Total return of major asset classes in 2022 (%)



Data source: Bloomberg L.P., 06 Jan 2023. Performance data shown represents past performance and does not predict or guarantee future results. Representative indexes: U.S. large cap equities: S&P 500 TR Index; U.S. small cap equities: Russell 2000 TR Index, non-U.S. equities: MSCI EAFE TR Index, emerging markets equities: MSCI Emerging Market TR Index; U.S. Treasuries: Bloomberg U.S. Treasury Index; U.S. investment grade bonds: Bloomberg U.S. Corporate Investment Grade TR Index; U.S. high yield corporate bonds: Bloomberg U.S. Corporate High Yield TR Index.

Portfolio considerations:

We prefer a quality tilt in fixed income portfolios, given that the hawkish Fed continues to hike rates into a slowing economy, and the economic impact of these hikes may not be felt for 12 to 18 months.

Currently, the 10-year/2-year part of the U.S. Treasury yield curve is extremely inverted, at 71 basis points (bps) — a level not seen since the early 1980s. We believe this inversion will persist with a flatter yield curve going forward.

From a sector perspective, we favor investing in the higher-quality parts of fixed income and moving up the capital structure, as well as emphasizing more stable and predictable cash flows. We also like asset-backed, agency mortgage-backed, and commercial mortgage-backed securities because they are attractive on a relative valuation basis versus other areas of the market and represent secured exposures.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

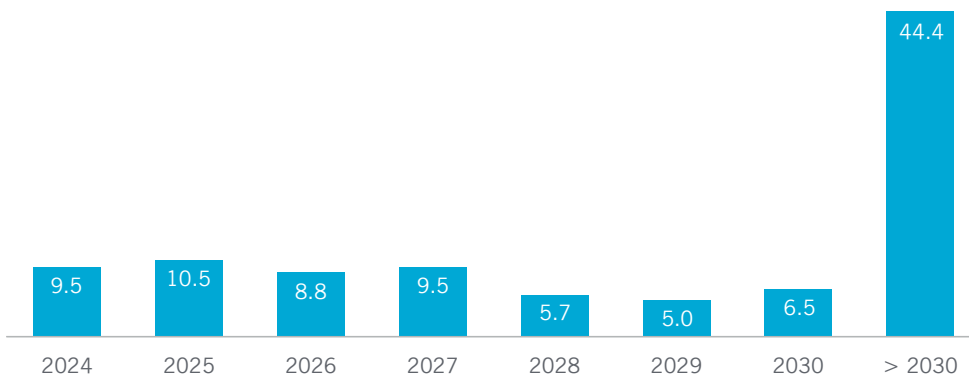
Although our overall economic forecast leans cautious, we have a positive view on credit fundamentals in the investment grade corporate space, in part due to a favorable maturity wall (Figure 2).

Following the refinancing wave in 2020-21 when the Fed's policy rate was 0%, many borrowers extended maturities and lowered their cost of debt financing, pushing debt coverage ratios to historic highs while in aggregate carrying record levels of cash.

We continue to focus on high quality bonds, given that the impact of Fed rate hikes may not be felt for 12 to 18 months.

FIGURE 2: POSITIVE INVESTMENT GRADE FUNDAMENTALS INCLUDE A FAVORABLE MATURITY WALL

Percentage of outstanding debt maturing in each year (%)



Data source: Bloomberg L.P., 04 Jan 2023. Based on the Bloomberg U.S. Corporate Investment Grade Index.

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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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