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CIO Weekly Commentary
21 October 2024

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Equities: local opportunities in global markets

Bottom line up top

High earnings expectations despite a low bar. As earnings season progresses, current 3Q earnings per share (EPS) growth estimates for eight of the 11 sectors in the S&P 500 Index remain substantially lower today than they were at the end of the second quarter. Moreover, companies that have reported above-consensus results have so far been rewarded less by investors, relative to history. According to FactSet, earnings misses have so far led to an average share price decrease of -2.2% in the two days before and after reporting, which is generally in line with the five-year average of -2.3%. This may be a warning sign that the current bull market is running on thin ice. The S&P 500 has already hit several dozen new all-time highs this year and is hovering near its most recent peak, with a valuation that's 21% above its 10-year average on a forward price-to-earnings (P/E) basis.

No matter the outcome, the U.S. general election will likely fuel volatility. Just 11 trading days remain before U.S. voters go to the polls, with more than 330 of S&P 500 companies (representing $34 trillion in market capitalization) set to report their 3Q results in that timeframe. We expect a positive but lackluster earnings season overall. And a review of past election cycles points to heightened downside risk for U.S. equities over the near term. Since 1992, each November election and its immediate aftermath has been marked by spikes in equity market volatility, as measured by the Cboe Volatility Index (VIX) – and this year should be no different. Although other exogenous events have created far greater spikes in the VIX at various points in time (Figure 1), the index currently sits above its long-term average and in line with the average of the past eight election cycles (which include the pandemic

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On behalf of Nuveen's Global Investment Committee

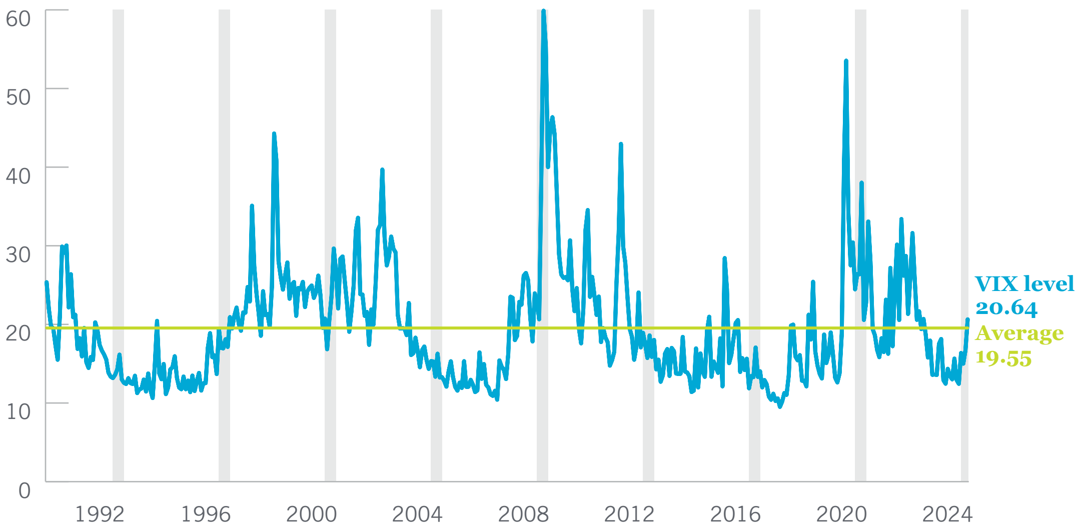
As Head of Equities and Fixed Income, Nuveen's CIO and leader of our Global Investment Committee, Saira drives market and investment insights, delivers client asset allocation views and brings together the firm's most senior investment leaders to deliver our best thinking and actionable investment ideas.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

in 2020 and the global financial crisis in 2008). We think increased U.S. equity market volatility should help make non-U.S. stocks, which already offer some relative advantages, look even more attractive.

Lackluster U.S. corporate earnings and election-related volatility could spark interest in non-U.S. equity markets.

FIGURE 1:VOLATILITY TENDS TO RISE DURING ELECTION CYCLES

Cboe Volatility Index (VIX)



Data source: FactSet, Jan 1990 to Oct 2024 (through 16 Oct). **Performance data shown represents past performance and does not predict or guarantee future results.** Data depict monthly readings of the Cboe Volatility Index (VIX) and the average level during that time. Shaded areas depict the final six months of U.S. general election years.

Portfolio considerations

Through mid-October, global equities are up over +19% this year, based on the MSCI All Country World Index (ACWI). While that's an impressive gain, it has led to stretched valuations: The ACWI's forward price-to-earnings (P/E) ratio now sits at 18.1x, well above its 14.6x average since 2006. The high price tag on equities in many regions of the world makes us especially mindful of where to actively add exposure. Two markets we find interesting in the current environment are Japan and China. Both offer attractive valuations and a higher dividend yield relative to the ACWI.

In **Japan**, the recent election of Shigeru Ishiba as prime minister came as a surprise to markets, leading to a moderate selloff. We believe this market reaction was overdone, given recent strong economic data. Japanese retail sales, for example, came in at +2.8% year over year for August, above consensus forecasts. We expect domestic consumption to remain healthy, as wages are trending up.

The Ishiba administration will likely lead to three economic and market catalysts: (1) higher interest rates that should support the yen; (2) a market tilt toward domestic stocks such as banks (also a beneficiary of rising rates); and (3) long-term corporate reforms that could bolster companies' return on equity and price-to-book ratios.

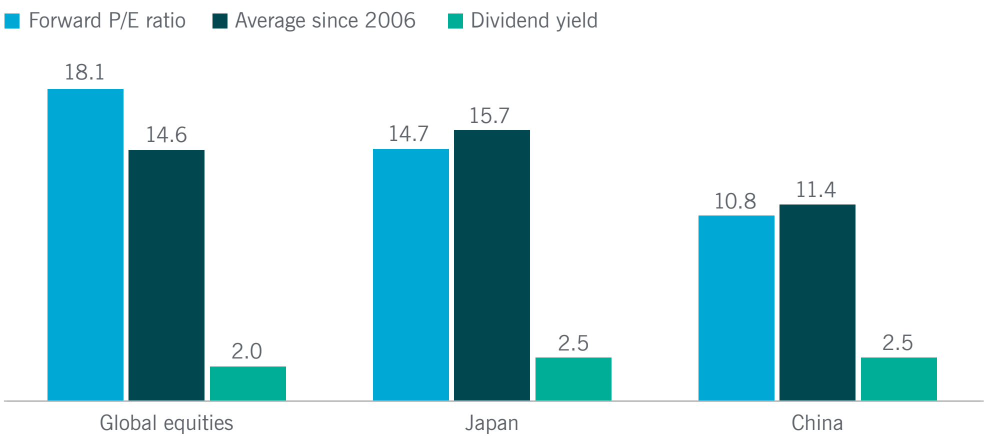
Equity markets in **China** have been quite volatile this year. The MSCI China Index surged +32% over a two-week period after the government announced significant stimulus measures on 24 September, then tumbled -14% over the following two weeks. We anticipate Chinese equities to remain highly volatile even as officials in Beijing stay focused on boosting domestic growth, which should ultimately be a positive.

In the meantime, Chinese stocks are trading at a forward P/E of 10.8x, below their long-term average of 11.4x. Additionally, buybacks of China A shares (domestic stocks listed on the Shanghai or Shenzhen stock exchanges and traded in Chinese currency) total nearly $30 billion year to date and should eclipse $40 billion by year-end. These buybacks should provide room for P/E ratios to expand. And if government stimulus succeeds in sparking domestic growth, earnings per share could be revised upward as well, benefiting Chinese equities.

Equities in Japan and China appear compelling: Both offer attractive valuations and higher dividend yields relative to the broader global market.

FIGURE 2: VALUATIONS AND DIVIDENDS MAY POINT TO OPPORTUNITIES IN GLOBAL EQUITIES

Price-to-earnings ratios and dividend yield (%)



Source: Bloomberg, L.P., as of 30 Sep 2024. **Performance data shown represents past performance and does not predict or guarantee future results. P/E ratios** reflect the forward 12-month ratio with the average based on monthly readings since Jan 2006. **Dividend yield** reflects the ratio of the dividends paid out per share relative to market price. **Representative indexes: global equities:** MSCI ACWI Index; **Japan:** MSCI Japan Index; **China:** MSCI China Index. For term definitions and index descriptions, please access the glossary on nuveen.com.

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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

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Endnotes

Sources

All market and economic data from Bloomberg, FactSet and Morningstar.

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