

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Planting an inflation hedge can be a real asset

Bottom line up top

A solid earnings season is quietly wrapping up. Of the approximately 90% of S&P 500 Index companies that have reported first quarter earnings, 77% beat their consensus earnings per share (EPS) forecasts, exceeding the 10-year average of 74%, according to FactSet. The magnitude of the beat (+7.5%) was also higher than the 10-year average (+6.7%). The relative strength of this earnings season has helped temper equity market concerns about inflation and a slowing economy. Overall, EPS growth estimates for the rest of 2024 have improved modestly since the beginning of the year, although the upward revisions have been concentrated in just four of the 11 S&P 500 sectors, led by communication services and consumer discretionary (Figure 1).

Is the stock market's recent crop of gains rooted in shallow soil? Despite a strong corporate earnings season and a relief rally following April's softer-than-expected employment report, equities may find themselves meandering as they await greater certainty about inflation and monetary policy. Both equity and fixed income markets were largely range-bound for much of last week, given the absence of catalysts amid a light economic data calendar and no surprises from central bank policy or rhetoric.

Although the S&P 500 notched a third consecutive week of positive returns and U.S. Treasury yields continued to moderately decline, we're mindful that a single data point like April's nonfarm payrolls does not constitute a trend — and vigilance is still warranted. Overall, inflation remains well above the Fed's 2% target, while first quarter GDP growth decelerated more than anticipated. Against this uncertain backdrop, we suggest investors consider further diversifying their portfolios, especially into areas like real assets that have a defensive track record and may help hedge against inflation.



Saira Malik, CFA
Chief Investment Officer

On behalf of Nuveen's Global Investment Committee

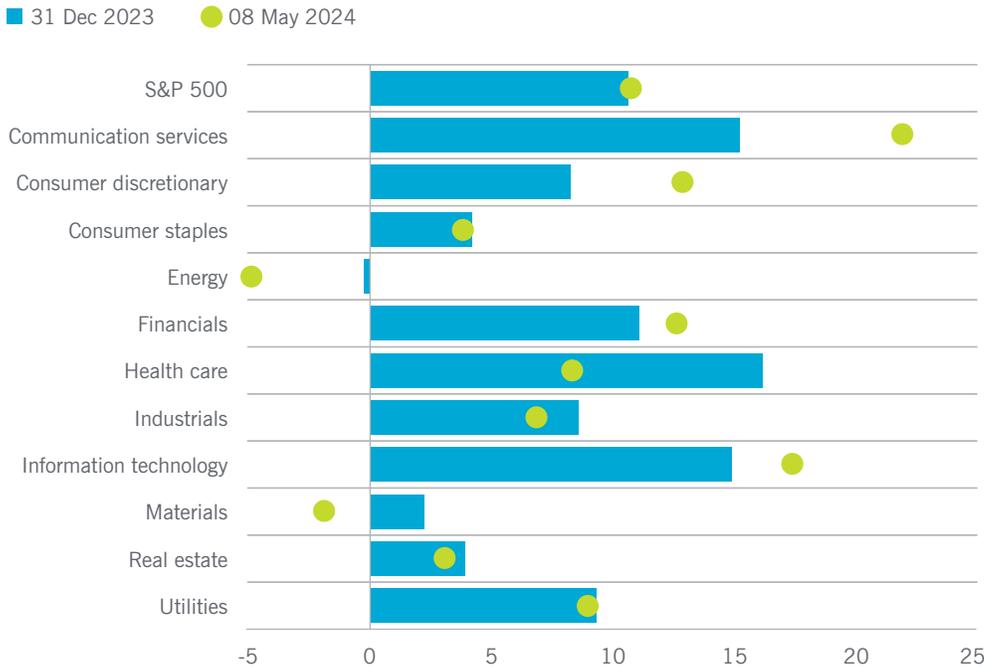
As Nuveen's CIO and leader of our Global Investment Committee, Saira drives market and investment insights, delivers client asset allocation views and brings together the firm's most senior investment leaders to deliver our best thinking and actionable investment ideas. In addition, she chairs Nuveen's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

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE

FIGURE 1: EARNINGS REVISIONS SHOW OPTIMISM

2024 S&P 500 earnings per share growth estimates (%)



Data source: FactSet, 08 May 2024.

Against this uncertain backdrop, we suggest investors consider further diversifying their portfolios.

Portfolio considerations

Farmland: the real fields of gold? Investors have historically looked to gold or other real assets as a hedge against inflation. While the precious yellow metal has made recent headlines as its price reached all-time highs, there is another real asset that has outperformed gold in previous high-inflation periods: farmland. When the annual inflation rate has been higher than 3%, farmland has handily outpaced gold, and with about a third less volatility, resulting in better risk-adjusted returns (Figure 2).

Investing in farmland can be an effective way to pursue several advantageous portfolio characteristics. Many agricultural commodities, including various foodstuffs and other raw materials, are components of the basket of goods used to calculate the Consumer Price Index, perhaps the most familiar gauge of inflation. As prices for these commodities rise, so do the revenues and cash yields generated by the farmland assets that produce them. Investors in farmland have an opportunity to benefit from a true total return, with a strong income component from lease obligations and capital appreciation due to rising land values over time (in contrast, gold provides only the potential for price appreciation and generates no income). Additionally, farmland offers geographic and commodity diversification given low correlations among different regions and crop types.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

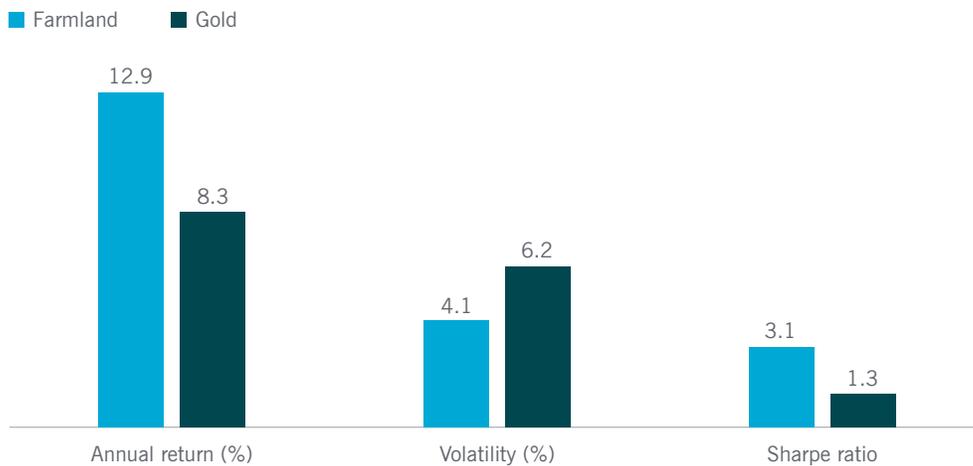
Farmland investments also provide access to a variety of operating strategies. Cash lease/cash flex, for example, is on the lower end of the risk spectrum, with limited exposure to price and production changes. In this strategy, farmland is leased on either a fixed-dollar basis or a flexible structure in which the owner receives a share in the crop. Another approach is custom farming, whereby the operator farms at the owners' discretion, providing all labor and machinery. The owner assumes the risks and potential rewards of crop production with minimal investment in equipment and personnel. Lastly, direct farmland involves the most operating risk, as the owner directly operates the property and provides machinery, personnel and crop inputs.

When the annual inflation rate has exceeded 3%, farmland has outpaced gold, and with about a third less volatility, resulting in better risk-adjusted returns.

Innovation sets the table for potential future gains. Hundreds of agriculture technology companies are working on breakthrough advancements in food safety, supply chain next-generation technologies, productivity, controlled environmental agriculture (such as indoor production to maximize crop output) and vertical farming. With the world's population on pace to increase to 9.7 billion by 2050, farmers will need to grow 70% more food than they do now to meet future demand. All of these factors support continued inelastic demand for farmland – and the investment opportunities that come with it.

FIGURE 2: FARMLAND HAS OFFERED ATTRACTIVE RISK-ADJUSTED RETURNS DURING PERIODS OF HIGH INFLATION (>3%)

Return characteristics



Data source: Bloomberg, L.P., 31 Dec 1990 to 31 March 2024. Performance data shown represents past performance and does not predict or guarantee future results. Representative indexes: Farmland: NCREIF Farmland Total Return Index; Gold: Gold United States Dollar Spot Price. Calculations based on quarterly returns. Inflation is based on CPI year-over-year.

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.

This material is not intended to be a recommendation or investment advice, does not constitute a solicitation to buy, sell or hold a security or an investment strategy, and is not provided in a fiduciary capacity. The information provided does not take into account the specific objectives or circumstances of any particular investor, or suggest any specific course of action. Investment decisions should be made based on an investor's objectives and circumstances and in consultation with his or her financial professionals.

The views and opinions expressed are for informational and educational purposes only as of the date of production/writing and may change without notice at any time based on numerous factors, such as market or other conditions, legal and regulatory developments, additional risks and uncertainties and may not come to pass. This material may contain “forward-looking” information that is not purely historical in nature.

Such information may include, among other things, projections, forecasts, estimates of market returns, and proposed or expected portfolio composition. Any changes to assumptions that may have been made in preparing this material could have a material impact on the information presented herein by way of example. **Performance data shown represents past performance and does not predict or guarantee future results.** Investing involves risk; principal loss is possible.

All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such. For term definitions and index descriptions, please access the glossary on nuveen.com. **Please note, it is not possible to invest directly in an index.**

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 investments are subject to market risk, active management risk, and growth stock risk; dividends are not guaranteed. Foreign investments involve additional risks,

including currency fluctuation, political and economic instability, lack of liquidity and differing legal and accounting standards. These risks are magnified in emerging markets. The use of derivatives involves additional risk and transaction costs. It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager. 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. As an asset class, agricultural investments are less developed, more illiquid, and less transparent compared to traditional asset classes. Agricultural investments will be subject to risks generally associated with the ownership of real estate-related assets, including changes in economic conditions, environmental risks, the cost of and ability to obtain insurance, and risks related to leasing of properties.

This information should not replace an investor's consultation with a financial professional regarding their tax situation. Nuveen is not a tax advisor. Investors should contact a tax professional regarding the appropriateness of tax-exempt investments in their portfolio. If sold prior to maturity, municipal securities are subject to gain/losses based on the level of interest rates, market conditions and the credit quality of the issuer. Income may be subject to the alternative minimum tax (AMT) and/or state and local taxes, based on the state of residence. Income from municipal bonds held by a portfolio could be declared taxable because of unfavorable changes in tax laws, adverse interpretations by the Internal Revenue Service or state tax authorities, or noncompliant conduct of a bond issuer. It is important to review your investment objectives, risk tolerance and liquidity needs before choosing an investment style or manager.

Nuveen, LLC provides investment solutions through its investment specialists.

This information does not constitute investment research as defined under MiFID.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE

1396626

GWP-3568566PG-E0524P