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CIO Weekly Commentary
14 November 2022

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Good inflation news comes with caveats

Bottom line up top:

A welcome step in the downhill climb from peak inflation. Last Thursday's release of U.S. Consumer Price Index data for October was the inflation report financial markets have been waiting for. Year-over-year headline CPI came in softer than expected at 7.7%, down from September's 8.2%, driven by a broad decline in goods prices. Core CPI, which excludes volatile food and energy prices, rose 6.3%, versus 6.7% in September. While these levels are still high by historical standards, the significant downshift rekindled hopes that a soft landing for the economy may yet be possible in 2023.

Base effects kicking in at last. The so-called "base effects" of inflation may finally be doing their part to bring down year-over-year CPI, as lower readings begin to roll off the 12-month calculation, replaced by higher readings that result in a more favorable comparison. For example, a forward path of a constant +0.50% monthly change in prices — elevated compared to history but in line with the average monthly increase over the past two years — would result in a year-over-year CPI print of about 5% by the end of June 2023 (Figure 1).

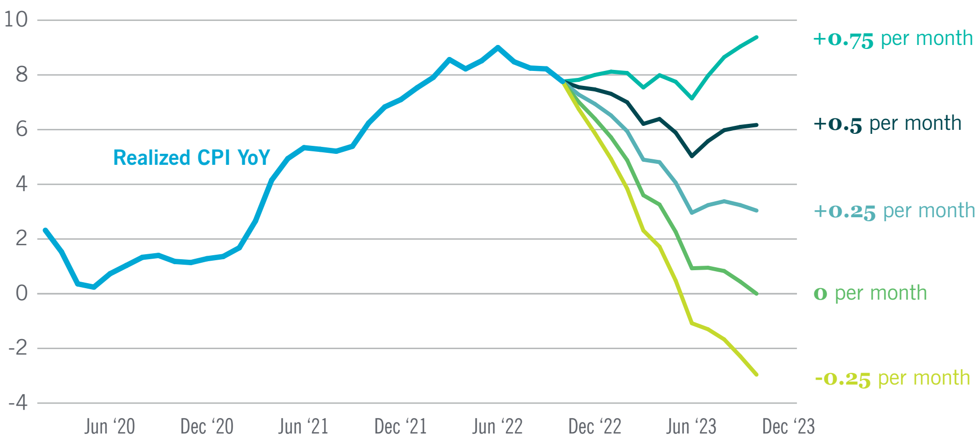
Saira Malik, CFA
Chief Investment Officer

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: WHERE CPI GOES FROM HERE COULD DETERMINE A HARD LANDING, OR A FED PIVOT

Projected monthly paths of YoY% CPI, given constant MoM% CPI

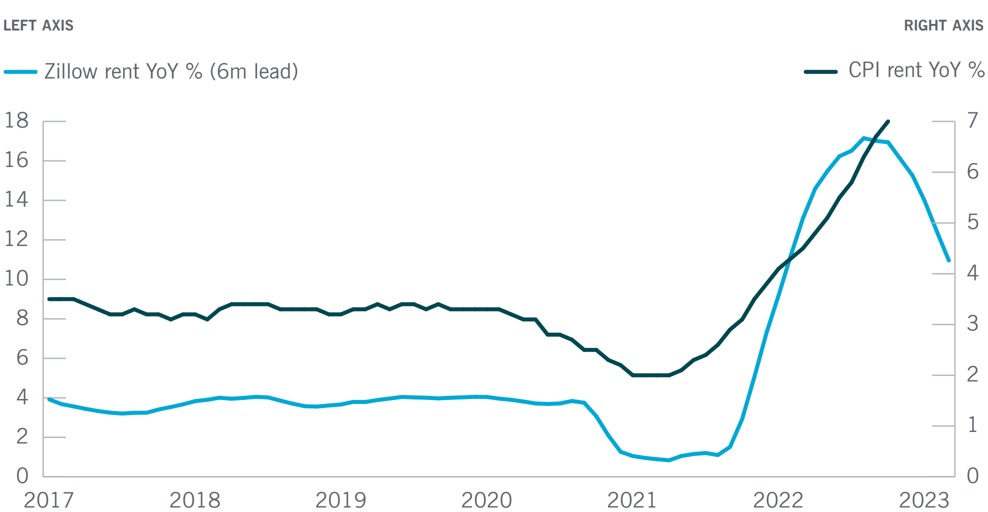


Data sources: Bloomberg L.P., Bureau of Labor Statistics Consumer Price Index, 10 Nov 2022. **Past performance does not predict or guarantee future results.**

Don't expect services inflation to decelerate quickly. While goods inflation came in at -0.5% in October, services inflation was +0.4%, driven by shelter (rent) costs at +0.8%. It will take some time for CPI shelter inflation to come down, even though some private measures of new rents are entering disinflationary territory. Figure 2 shows the Zillow Rent Index beginning to decline year over year, while CPI shelter is still accelerating. Also contributing to the "stickiness" of services inflation is a still-tight labor market, with 6% median year-over-year wage growth helping fuel the continued post-Covid consumer shift from goods to services spending.

FIGURE 2: ZILLOW RENT MEASURES ARE DECLINING, WHILE CPI CONTINUES TO ACCELERATE

Zillow rent with a six-month lead, against CPI rent



Data sources: Bloomberg L.P., Zillow.com, Bureau of Labor Statistics Consumer Price Index, 10 Nov 2022. **Past performance does not predict or guarantee future results.**

The so-called "base effects" of inflation may finally be doing their part to bring down year-over-year CPI.

Energy prices remain a wildcard. Since June, an approximately 20% drop in prices for energy commodities, measured by the Bloomberg Commodity Index, has made energy a detractor from monthly CPI over the past three months, after being the inflation bogeyman for the majority of 2022. Gasoline prices — a particularly volatile subcomponent of energy CPI — ticked up in October after three consecutive monthly declines (Figure 3). Looking ahead, the World Bank expects energy prices to fall 11% in 2023, driven mainly by weaker demand amid slowing global growth and continued lockdowns in China. We agree with this view, but acknowledge the difficulty of predicting the potentially dramatic impact of policy, geopolitical and supply dynamics on energy prices.

We caution against removing inflation protection from portfolios until further data indicates that doing so would be prudent.

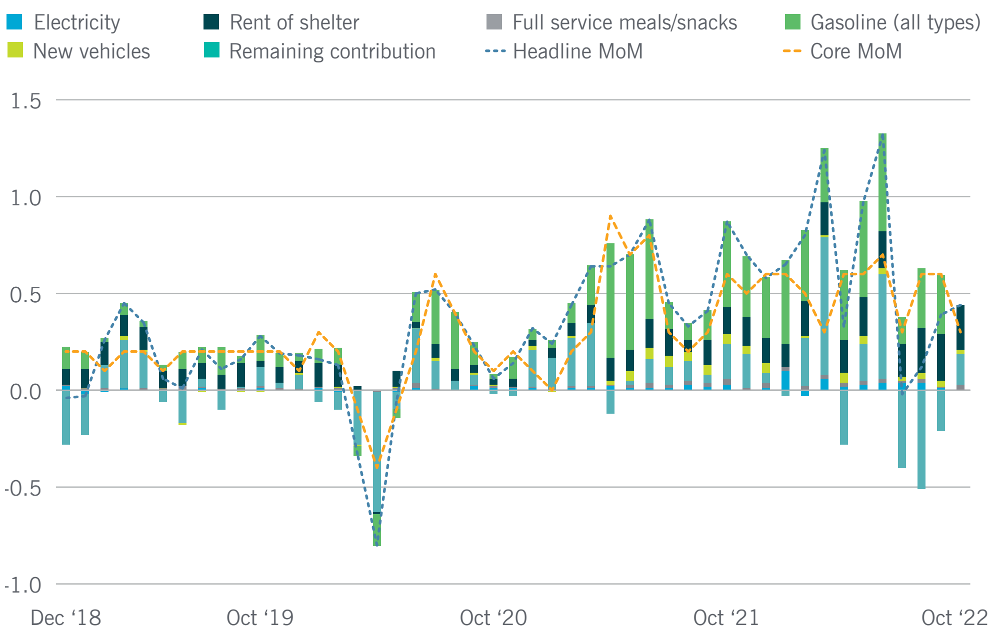
Portfolio considerations:

One data point does not make a trend, and the U.S. Federal Reserve is unlikely to reverse course based on October's CPI print. It was only two weeks ago when Fed Chair Jerome Powell conveyed that rates are likely to remain "higher for longer," even if the pace of rate increases begins to moderate in the coming months.

That said, **our base case calls for a continued deceleration of inflation** for the remainder of 2022 and the first half of 2023, driven first by goods and energy prices, and eventually by services. But given energy's potential to have an unpredictable and outsized impact on the trajectory of CPI, we caution against removing inflation protection from portfolios or positioning for a Fed pivot until further data indicate that it would be prudent to do so.

FIGURE 3: ENERGY PRICES WILL CONTINUE TO BE A WILDCARD FOR THE FUTURE PATH OF INFLATION

Changes in month-over-month inflation rate and key sub-component contributors (%)



Data sources: Bloomberg L.P., Bureau of Labor Statistics Consumer Price Index, 10 Nov 2022. **Past performance does not predict or guarantee future results.**

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

In the meantime, **infrastructure** remains our preferred method for inflation protection, as essential projects tied to the power grid can benefit from higher energy prices with less volatility than direct ownership of energy commodities, paying streams of income along the way. **Farmland** investments are also attractive because they tend to hold their value in real terms, and provide income stability thanks to their longer-term leases.

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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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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 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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