

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Market turmoil shines a light on 60/40 conundrum

Bottom line up top:

Pain and no gain. Investors seeking shelter from the first quarter's harsh market and geopolitical maelstrom were frustrated at just about every turn. Major equity indexes tumbled into correction territory, and typically reliable sources of diversification failed to deliver their historical benefits amid broadly negative returns (Figure 1). While there were relative outperformers, even the best possible asset allocation outcome delivered results that were only "less worse."

Bonds break from the past. By any measure, the nearly 7% decline in the value of the 10-year Treasury in the first quarter was dismal on a historic scale. However, investors who focused on credit risk instead of duration risk (a stance we have been advocating for some time) were able to mitigate at least some losses. Figure 2 shows several rate-sensitive bond categories with elevated downside capture for the period, in uncharacteristic sympathy with falling equity markets.

60/40 portfolio bounce back? The first quarter was certainly challenging for the traditional 60% equity/40% fixed income portfolio. Focusing on the 40%, the key question is whether the pain is behind us or whether there's more to come. We believe it's the latter, with the Fed likely to maintain momentum and corporate fundamentals likely to remain strong. This further underscores our preference for credit assets (Figure 3).



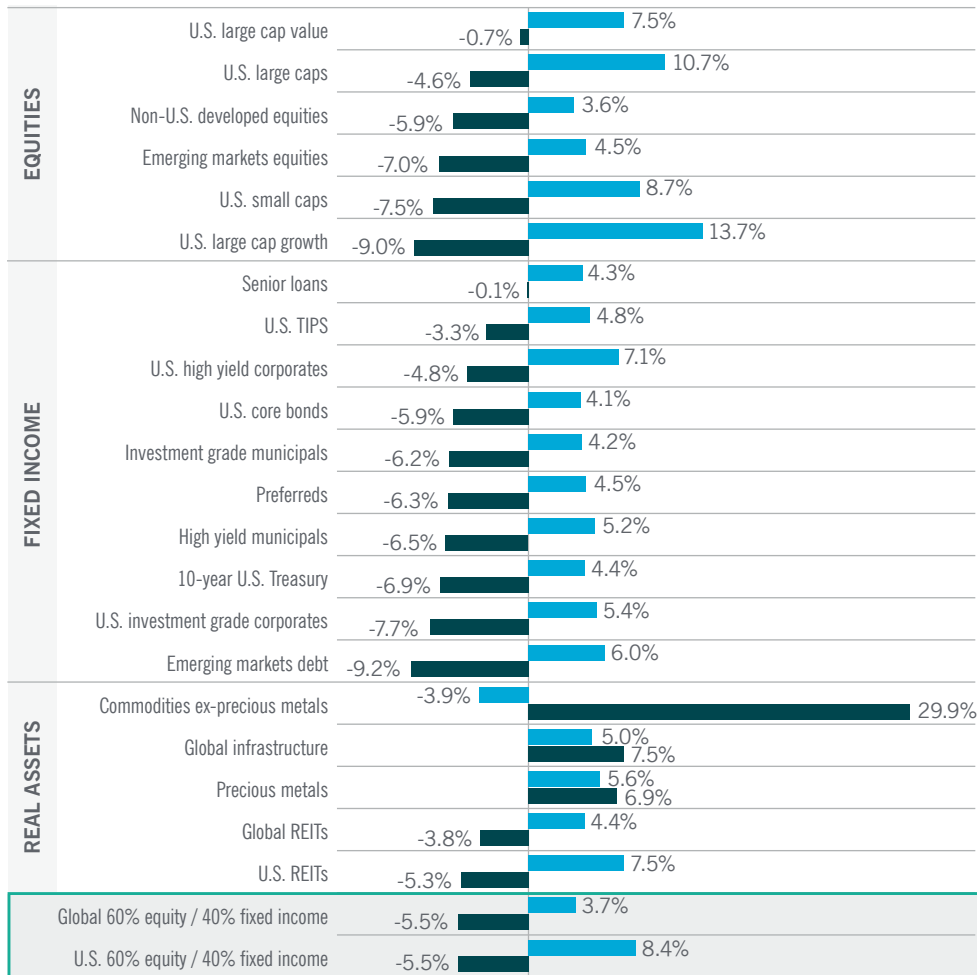
Saira Malik, CFA
Chief Investment Officer

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: THE 60/40 PORTFOLIO IN 2022: A BLIP OR A SIGN OF THINGS TO COME?

■ 2022 total return, 08 Apr 2022 ■ 15-year annualized total return, 31 Dec 2021



Data source: Bloomberg, L.P. Past performance is no guarantee of future results. Representative indexes: U.S. large cap value: Russell 1000 Value Index; U.S. large caps: S&P 500 Index; Non-U.S. developed equities: MSCI EAFE Index; Emerging markets equities: MSCI Emerging Markets Index; U.S. small caps: Russell 2000 Index; U.S. large cap growth: Russell 1000 Growth Index; Senior loans: Credit Suisse Leveraged Loan Total Return Index; U.S. TIPS: Bloomberg U.S. Govt Inflation-Linked Index; U.S. high yield corporates: Bloomberg US Corporate High Yield Index; U.S. core bonds: Bloomberg U.S. Aggregate Index; Investment grade municipals: Bloomberg Municipal Bond Index; Preferreds: ICE BofA U.S. All Capital Securities Index; High yield municipals: Bloomberg Municipal Bond High Yield Index; 10-year U.S. Treasury: Bloomberg US Treasury Bellwethers 10 Year Index; U.S. investment grade corporates: Bloomberg U.S. Corporate Index; Emerging markets debt: Bloomberg EM Index; Commodities ex-precious metals: Bloomberg Commodity ex-Precious Metals Index; Global infrastructure: S&P Global Infrastructure Index; Precious metals: Bloomberg Precious Metals Subindex; Global REITs: FTSE NAREIT Developed Index; U.S. REITs: FTSE NAREIT All Equity Index; Global 60/40: Bloomberg Global EQ:FI 60:40 Index; U.S. 60/40: Bloomberg U.S. EQ:FI 60:40 Index.

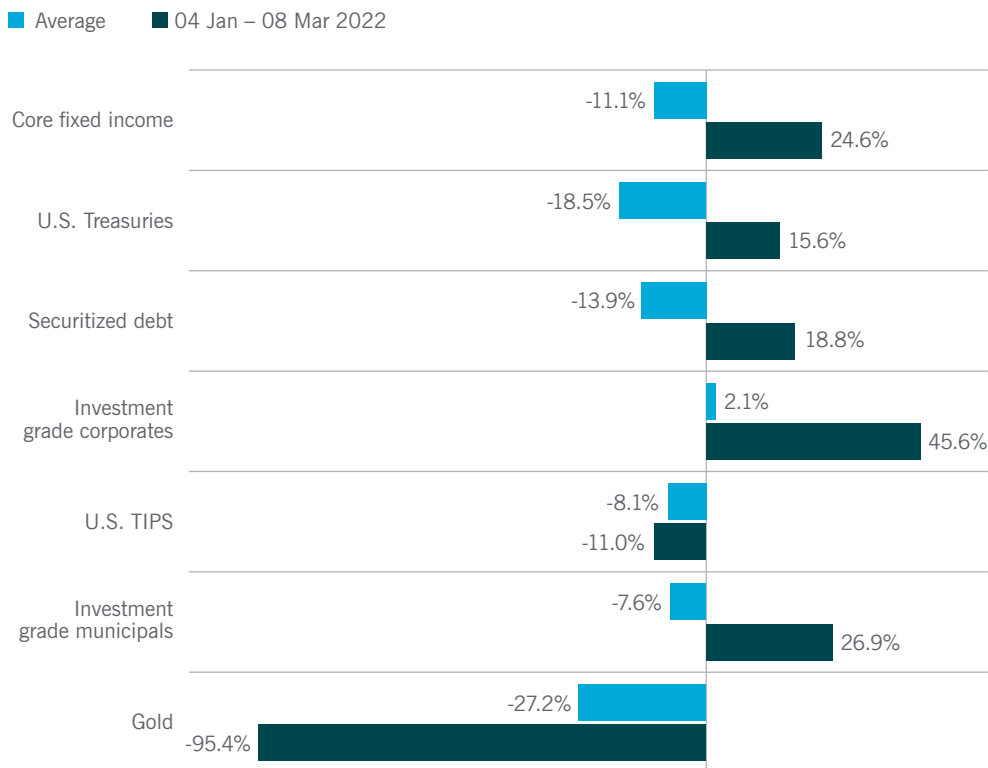
Bonds haven't provided the ballast they typically do during this correction, making portfolio construction more challenging.

Portfolio implications

History has not repeated. Comparing the 2022 market correction to history, the glaring difference is the performance of traditional fixed income. In the past, downside capture for bonds was negative or close to zero in most cases. But in 2022, we've seen positive downside capture, underscoring that we're in a different regime. Another critical divergence from prior experience: Credit has offered more downside protection than duration.

FIGURE 2: THE 2022 CORRECTION CREATES INTENSE PORTFOLIO CONSTRUCTION CHALLENGES

Downside capture versus S&P 500 Index during market corrections



Data source: Bloomberg, L.P., 31 Dec 1997 to 31 Mar 2022. "Average" refers to all periods when the S&P 500 Index fell 10% or more from an all-time high. Past performance is no guarantee of future results. Representative indexes: Core fixed income: Bloomberg U.S. Aggregate Total Return Value Unhedged USD Index; U.S. Treasuries: Bloomberg U.S. Treasury Total Return Unhedged USD Index; Securitized debt: Bloomberg U.S. Securitized MBS/ABS/CMBS and Covered TR Unhedged USD Index; Investment grade corporates: Bloomberg U.S. Corporate Total Return Value Unhedged USD Index; U.S. TIPS: Bloomberg U.S. Treasury Inflation Notes TR Unhedged USD Index; investment grade municipal bonds: Bloomberg Municipal Bond Total Return Unhedged USD Index; Gold: Bloomberg Gold Subindex.

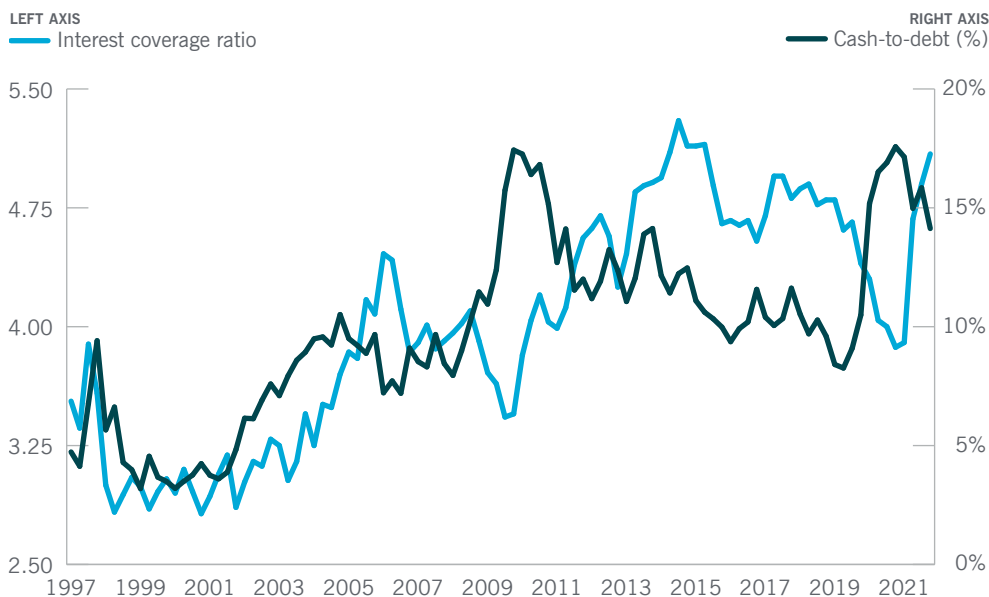
Focusing on shorter duration and taking on more credit risk has been a winning strategy so far this year. We expect that will continue.

Credit fundamentals remain strong, providing a further reason to be willing to take on credit risk.

More fixing needed for the 40? Investors are likely asking whether the current posture that has been working (shorter duration, longer credit) will persist. Our answer is yes. We believe asset classes with significant duration exposure will continue to experience pain, so we still favor credit. Four reasons underlie this view:

1. We don't believe a recession is imminent (which would be the primary reason we'd feel compelled to prefer rates).
2. The hiking cycle has only just begun.
3. Inflation is high, and remains the focus of both the markets and the Fed.
4. Credit fundamentals remain healthy (partially illustrated in Figure 3), backed by a strong economy.

FIGURE 3: WITH STRONG BALANCE SHEETS, EVEN BELOW-INVESTMENT GRADE ISSUERS ARE WELL-COVERED



Data source: Bloomberg, L.P., March 1997 to December 2021, quarterly readings. Data reflects the Bloomberg US Corporate High Yield Index.

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. **Past performance is no guarantee of 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.**

A word 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.

Nuveen provides investment advisory services through its investment specialists.

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