

# nuveen

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# Bulls and bears jockey for position as global equities enter 2025

*Equities market update*

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As of 31 Dec 2024

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# Equities remain supported by earnings expectations, yet policy unknowns remain

Mitigating risks and volatility is critical to navigating equity markets

## Macroeconomic factors

- Support for additional rate cuts remains influx
- The labor market is trending towards equilibrium and consumers remain resilient
- Payment delinquencies are increasing as borrowing costs and standards remain tight
- Focus on U.S. policy changes related to the incoming administration
- Ongoing geopolitical conflicts and elevated economic uncertainty remains

## Market implications

- 2025 U.S. earnings expectations remain at mid double-digit growth
- Defending corporate margins and return on invested capital (ROIC) will remain in focus
- Select opportunities in high quality equities, dividend payers and infrastructure
- Active management opportunities due to increased risks in various areas of equity markets

## Risks to expectations

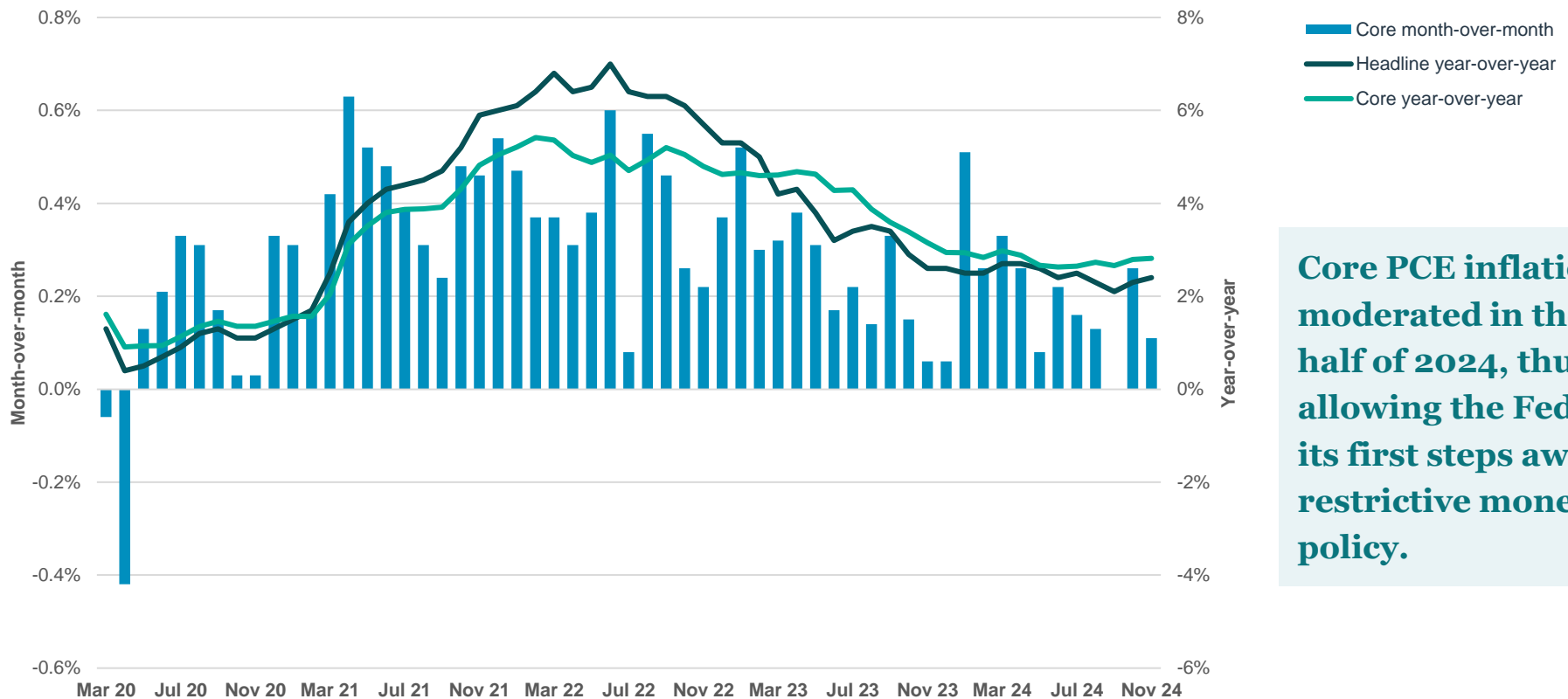
- Downward earnings revisions driven by margin contraction or demand destruction
- Central bank policy error
- Subsequent wave of global inflationary pressures
- Labor market weakens and consumer deteriorates
- Geopolitical conflicts intensify and create economic instability

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# Recently moderating inflation looks to be stalling based on recent data

Several key inflationary components, such as shelter and wages, remain stubbornly high

## Personal Consumption Expenditures (PCE) Price Index



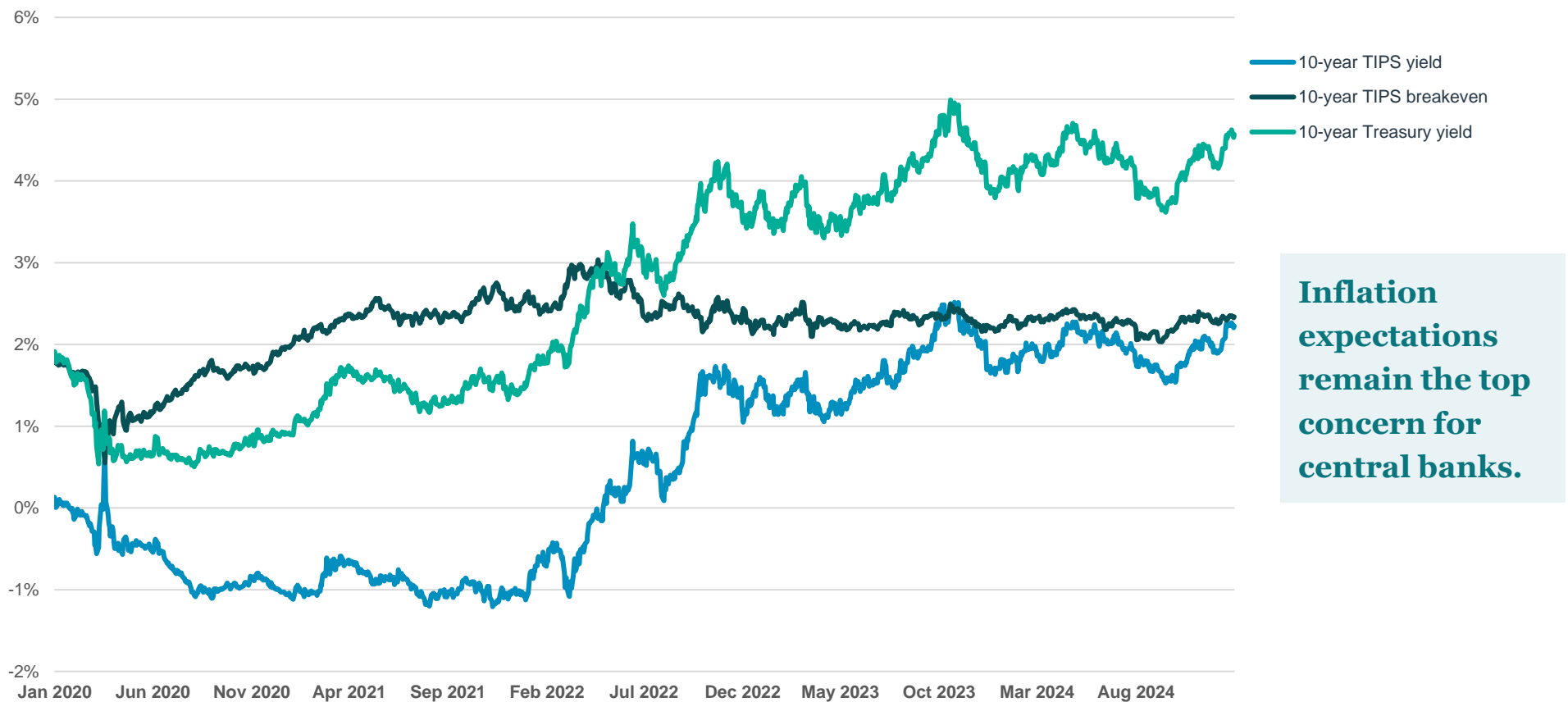
**Core PCE inflation had moderated in the first half of 2024, thus allowing the Fed to take its first steps away from restrictive monetary policy.**

Data source: Bureau of Economic Analysis, Bloomberg, L.P., 30 Nov 2024. Most recent data available.

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# Real interest rates are likely to remain relatively unchanged for the foreseeable future

Following rapid tightening of financial conditions, the Fed's appetite for additional rate cuts remains dependent on inflation moving sustainably towards 2%



**Inflation expectations remain the top concern for central banks.**

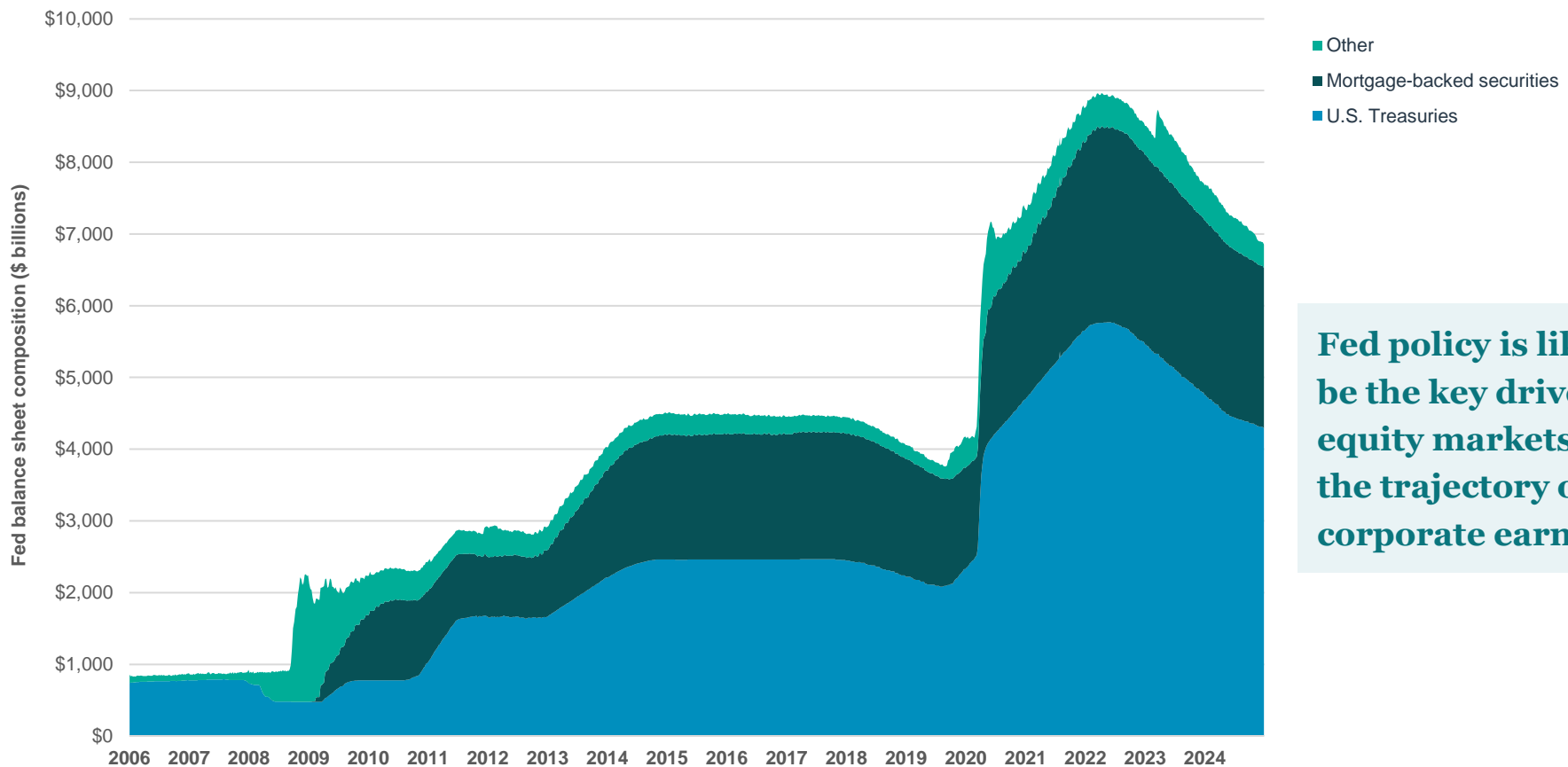
Data source: Bloomberg, L.P., 01 Jan 2020 – 31 Dec 2024. Performance data shown represents past performance and does not predict or guarantee future results.

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## Macro factors

# The Fed has started easing monetary policy, while the balance sheet continues to shrink

The Fed's balance sheet should continue to taper, but at a slow and measured pace



**Fed policy is likely to be the key driver for equity markets and the trajectory of corporate earnings.**

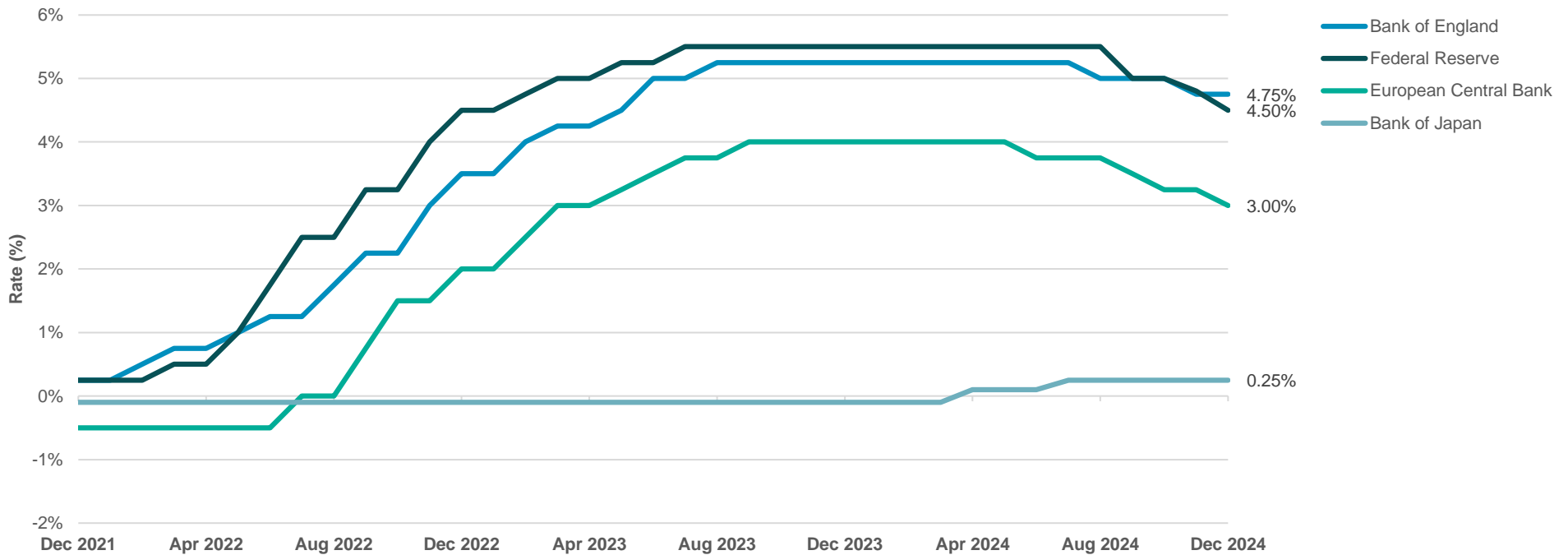
Data sources: Federal Reserve Board, [Federalreserve.gov](https://www.federalreserve.gov), 04 Jan 2006 – 01 Jan 2025.

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# Central banks across the globe remain cautious around secondary bouts of inflation

The ECB and BoE both reduced rates and are monitoring data regarding future policy, while the BoJ slowly emerges from a longstanding zero interest rate policy

Global central bank policy rates (%)



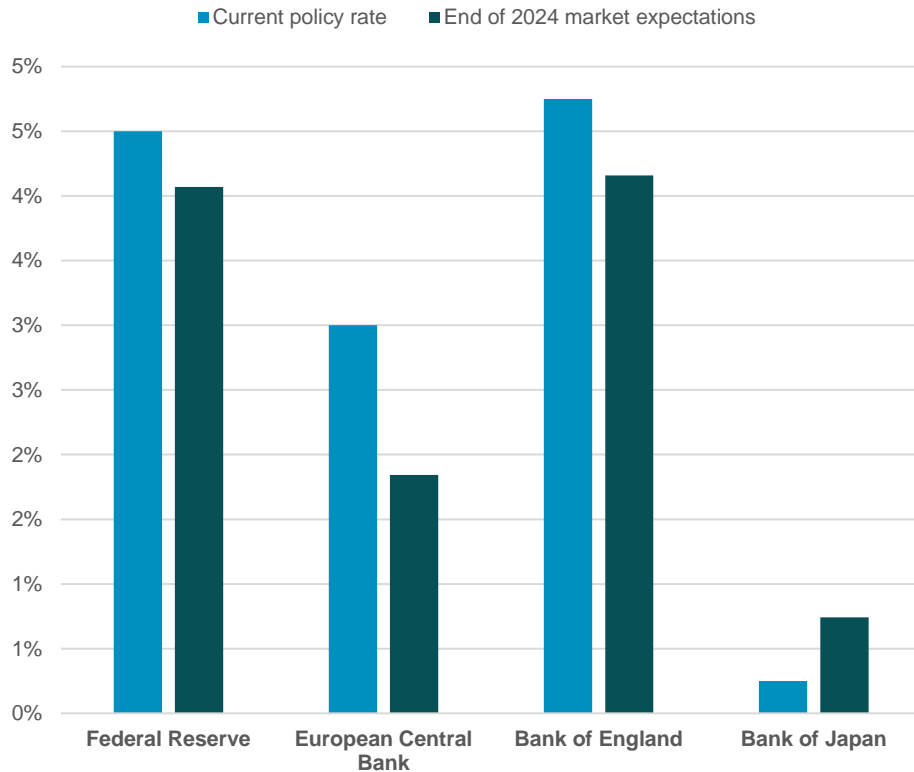
Source: Nuveen Portfolio Strategy Group, Bloomberg, 31 Dec 2021 – 31 Dec 2024.

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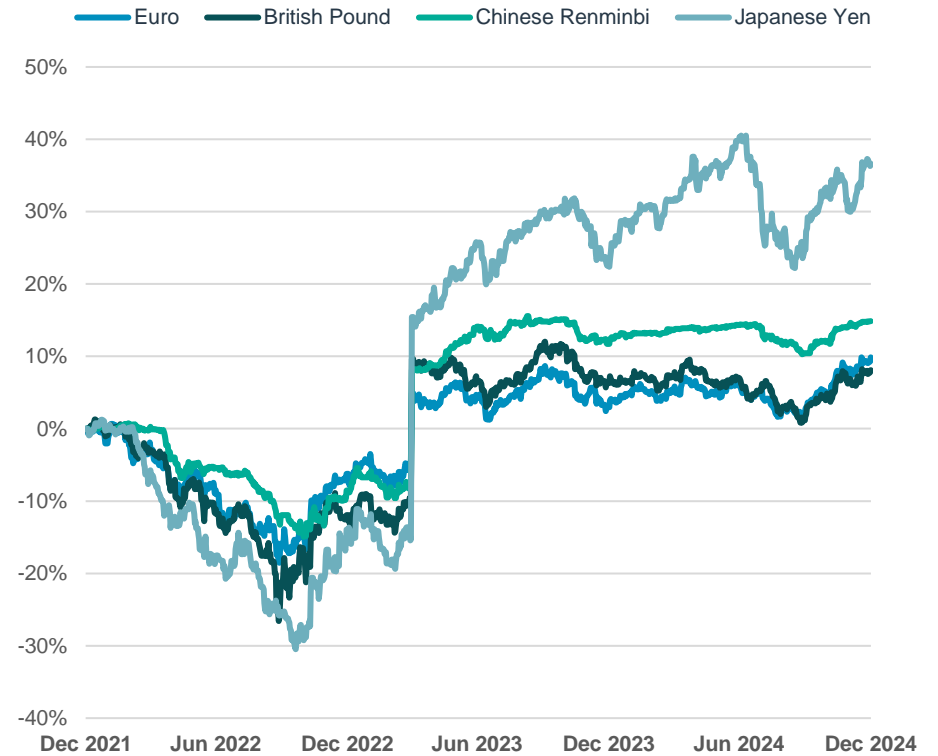
# U.S. dollar direction is increasingly dependent on the incoming administration's policy changes

Global central banks continue to exhibit caution on the timing and pace of policy decisions

## Central bank policy rates and expectations



## Currency returns versus U.S. dollar

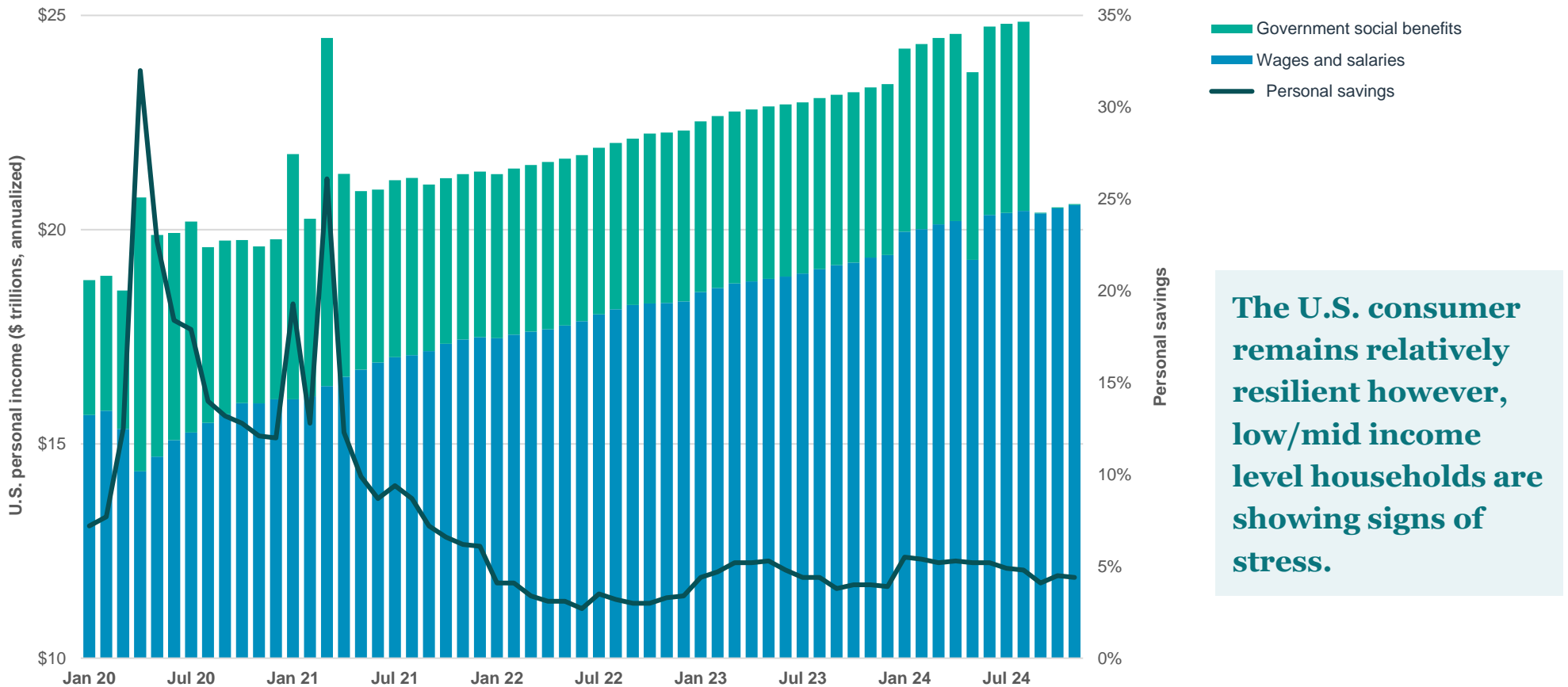


Source: Bloomberg, Nuveen Portfolio Strategy & Solutions, 31 Dec 2021 – 31 Dec 2024. Performance data shown represents past performance and does not predict or guarantee future results.

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# Consumer spending continues to hold up despite savings rates returning to normal

Job security and real wage growth will be key variables to monitor



**The U.S. consumer remains relatively resilient however, low/mid income level households are showing signs of stress.**

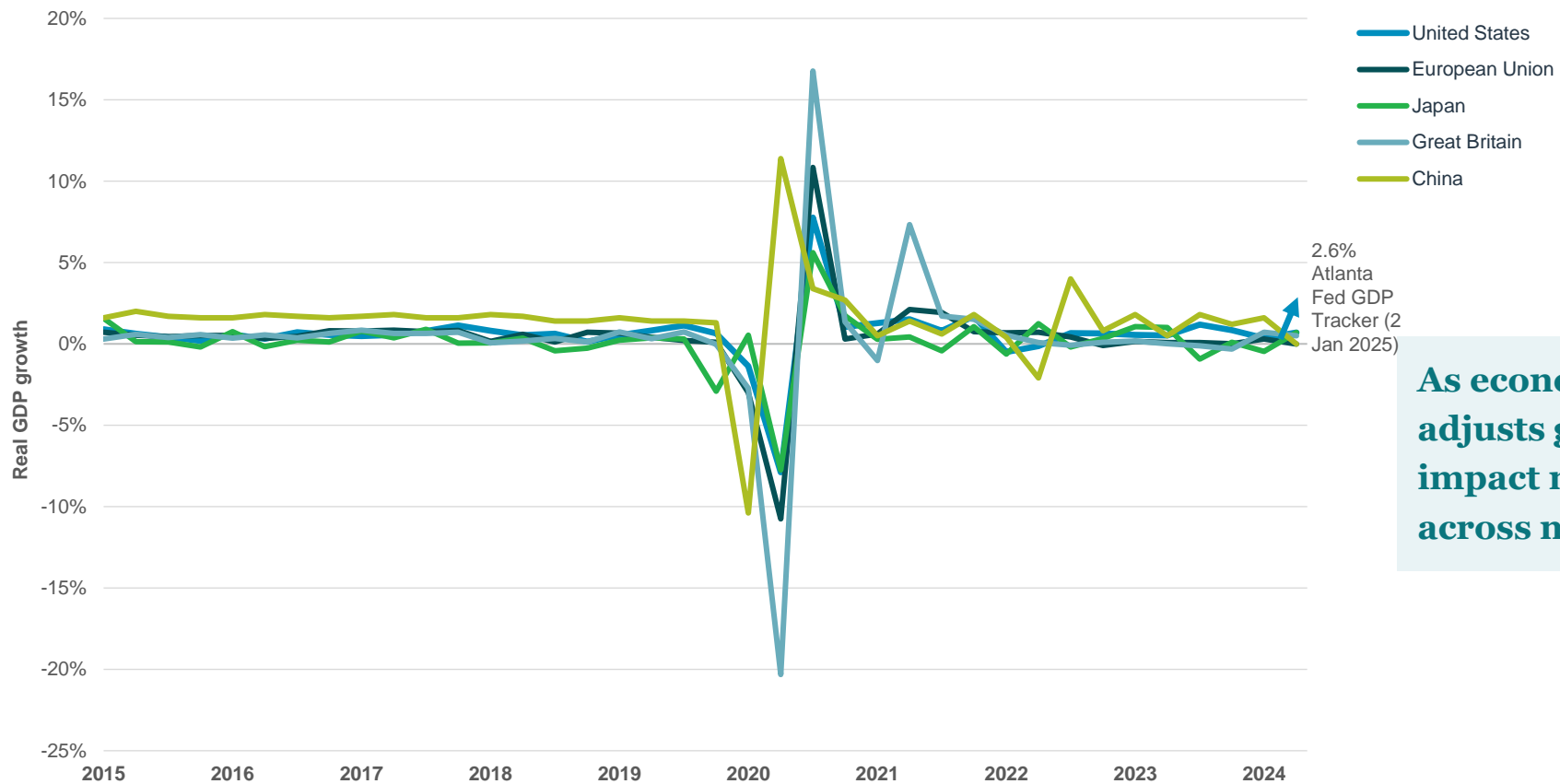
Data source: Bureau of Economic Analysis, 30 Nov 2024. Wages and salaries include typical government social benefits such as Social Security, Medicare, Medicaid, unemployment insurance and veterans' benefits. Personal savings represent a percentage of disposable personal income.

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# Global economic growth remains resilient, but underwhelming

However, above average inflation, elevated costs of capital, margin pressures and geopolitical tensions continue to drive uncertainty



**As economic policy adjusts globally, the impact may vary across markets.**

Data source: Organisation for Economic Co-operation and Development, 31 Mar 2015 – 30 Sep 2024. Most recent data available. 2.6% is the Atlanta Fed GDP Tracker for fourth quarter 2024.

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# The Nuveen Macro Market Monitor

HOW ARE THESE FACTORS AFFECTING THE U.S ECONOMY		AS OF 31 Dec 2024	
INFLATION	Long-term inflation expectations	2.3%	While training inflation remains elevated, forward-looking inflation expectations are approaching the long-term median.
U.S MONETARY POLICY	Federal funds rate	4.5%	Generally restrictive, given the current fed funds rate and the impact of higher overall rates on financial conditions.
	Financial conditions	99.3	
ECONOMIC ACTIVITY	Consumer expectations	71.6	Recent economic data are mixed. Household debt service ratios and economic surprises have been strong, while consumer expectations have declined, and August housing starts were below expectations.
	Household debt service ratio	9.8%	
	Housing starts	1.29M	
	Economic surprises	1.7	
EMPLOYMENT	Jobless claims	219,000	Healthy, with jobless claims and job openings near their 20-year lows and highs, respectively.
	Job openings	7.7M	
INVESTOR SENTIMENT	Broad investor sentiment	0.0	Mixed, with individual investors reflecting more optimism than the overall investor community.
	Individual investor survey	3.7	
U.S EQUITY FUNDAMENTALS	S&P 500 forward price to earnings ratio	21.6x	While positive earnings revisions are a plus, index-level valuations and below-median expected earnings growth warrant caution.
	S&P 500 forward expected earnings growth	14.0%	
	Revisions to expected earnings	1.9%	

● Positive ● Neutral ● Negative

Data source: Bloomberg L.P., 31 Dec 2024. Past performance does not predict or guarantee future results. Spreads represent Bloomberg U.S. Corporate High Yield Index option-adjusted spread to Treasuries. The views above are for informational purposes only and do not reflect the experience or performance of any Nuveen product, strategy or service.

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# Scenario analysis for the U.S. equity market

**2025 S&P 500 Year End Target<sup>1</sup> = 6,400**

<p><b>Base Case</b></p>	<p><b>Modest economic growth with improved business confidence and deregulation</b></p> <ul style="list-style-type: none"> <li>• Probability<sup>2</sup> = 55%</li> <li>• S&amp;P 500 = 6,800</li> <li>• 10-year U.S. Tr yield = 4.50%</li> <li>• Assumes 12% EPS growth and the P/E remaining at 22x</li> <li>• Federal Reserve continues to reduce interest rates towards neutral, but mindful of adverse effects tariffs and geopolitical conflicts may have</li> </ul>	<p><b>Bull Case</b></p>	<p><b>Strong economic growth, no significant rebound in inflation</b></p> <ul style="list-style-type: none"> <li>• Probability<sup>2</sup> = 20%</li> <li>• S&amp;P 500 = 7,200</li> <li>• 10-year U.S. Tr yield = 5.00%</li> <li>• Assumes 14% EPS growth and the P/E increasing to 23x</li> <li>• Federal Reserve continues to reduce interest rates; AI narrative continues to progress</li> </ul>
<p><b>Bear Case (Mild Recession)</b></p>	<p><b>Mild recession due to labor market challenges and reduced consumer spending</b></p> <ul style="list-style-type: none"> <li>• Probability<sup>2</sup> = 15%</li> <li>• S&amp;P 500 = 4,700</li> <li>• 10-year U.S. Tr yield = 3.00%</li> <li>• Assumes 10% EPS decline and the P/E decreasing to 19x</li> <li>• Federal Reserve reduces interest rates, and inflation decreases as weak consumer offsets issues from tariffs</li> </ul>	<p><b>Bear Case (Tariffs)</b></p>	<p><b>Broad tariffs with retaliation, another round of inflation</b></p> <ul style="list-style-type: none"> <li>• Probability<sup>2</sup> = 10%</li> <li>• S&amp;P 500 = 5,200</li> <li>• 10-year U.S. Tr yield = 5.00%</li> <li>• Assumes 5% EPS decline and the P/E decreasing to 20x</li> <li>• Federal Reserve not in position to reduce interest rates</li> </ul>

<sup>1</sup> S&P 500 targets are not guaranteed. The targets above are derived from both quantitative and qualitative factors, including historical returns and market conditions and assumptions. The targets are presented to establish a benchmark for future evaluation of performance and to provide a measure to assist in assessing anticipated risk and reward characteristics. Any target data or other forecasts contained herein are based upon subjective estimates and assumptions; if any of the assumptions used do not prove to be true, results may vary substantially.

<sup>2</sup> Views expressed are a combination of quantitative and qualitative analysis from the Equities Investment Council, based on a combination of earnings, valuations, and S&P 500 data. Scenario probabilities are opinions of Nuveen, and subject to change.

Certain statements may be deemed forward-looking statements. Please note that any such statements are not guarantees or intended to constitute a prediction of any future performance; actual results or developments may differ materially from those projected.

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Market implications

# U.S. equity markets remain near all-time highs as earnings growth expectations also remain high

P/E multiples remain above 10-year averages, however equally-weighted P/Es are in line with historical averages

## S&P 500 Index



Data source: FactSet, 31 May 2011 – 31 Dec 2024. Performance data shown represents past performance and does not predict or guarantee future results.

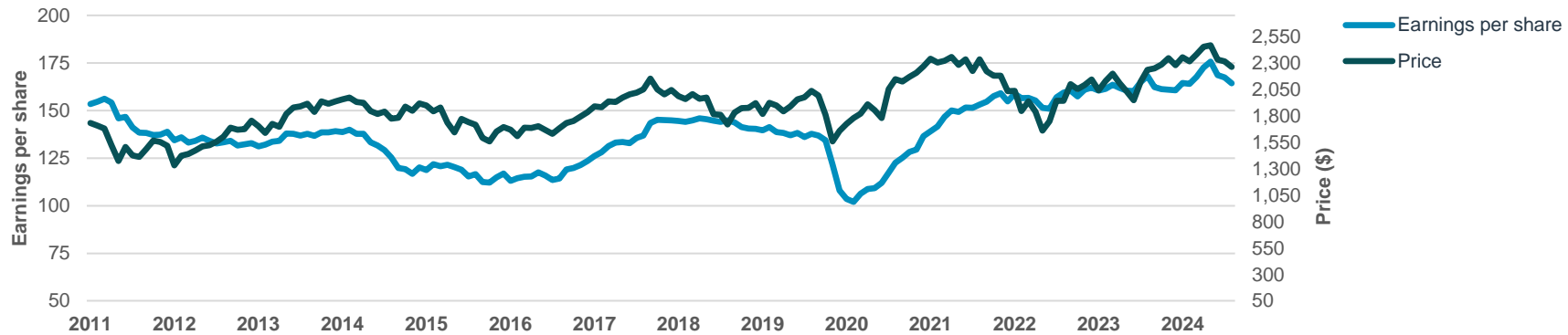
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Market implications

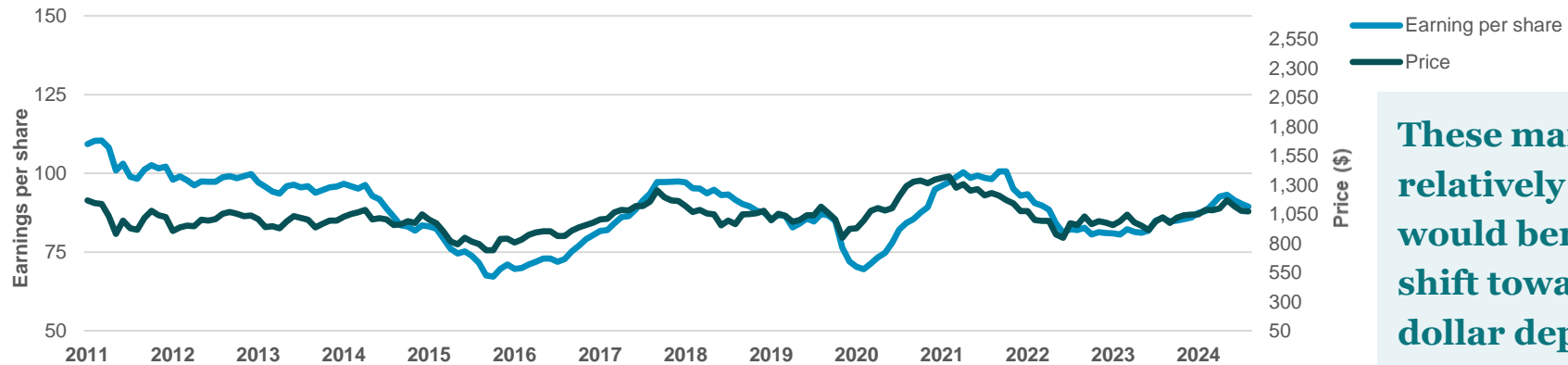
# Caution is merited based on relative economic growth prospects

Equity market landscape outside the U.S. appears mixed, with select developed market and emerging market opportunities

## MSCI EAFE



## MSCI Emerging Markets



**These markets are relatively cheaper and would benefit from a shift towards U.S. dollar depreciation.**

Data source: FactSet, 31 May 2011 – 31 Dec 2024. Performance data shown represents past performance and does not predict or guarantee future results.

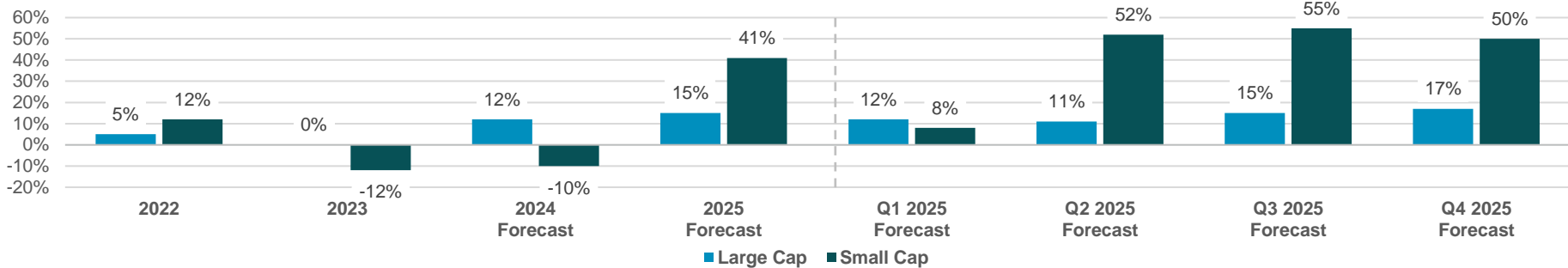
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Market implications

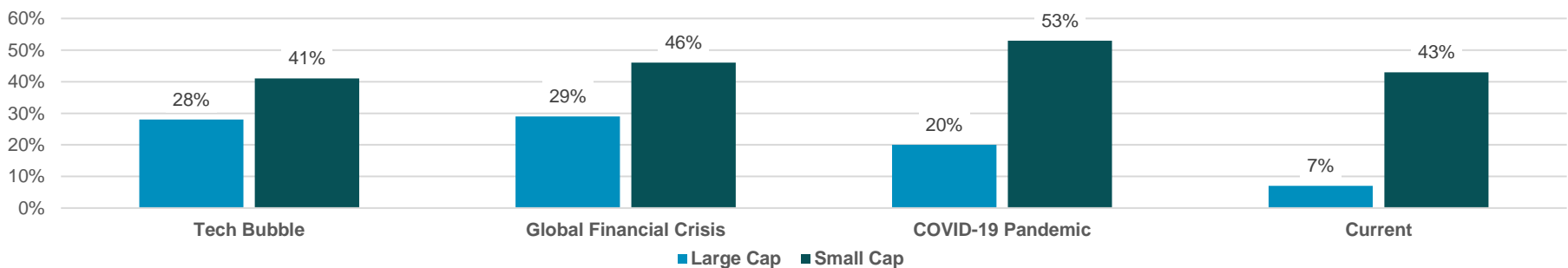
# Small cap earnings are expected to reaccelerate

Selectivity through active management is warranted due to a growing number of unprofitable publicly traded small cap companies

## Earnings growth (year-over-year)



## Percent of unprofitable companies\*



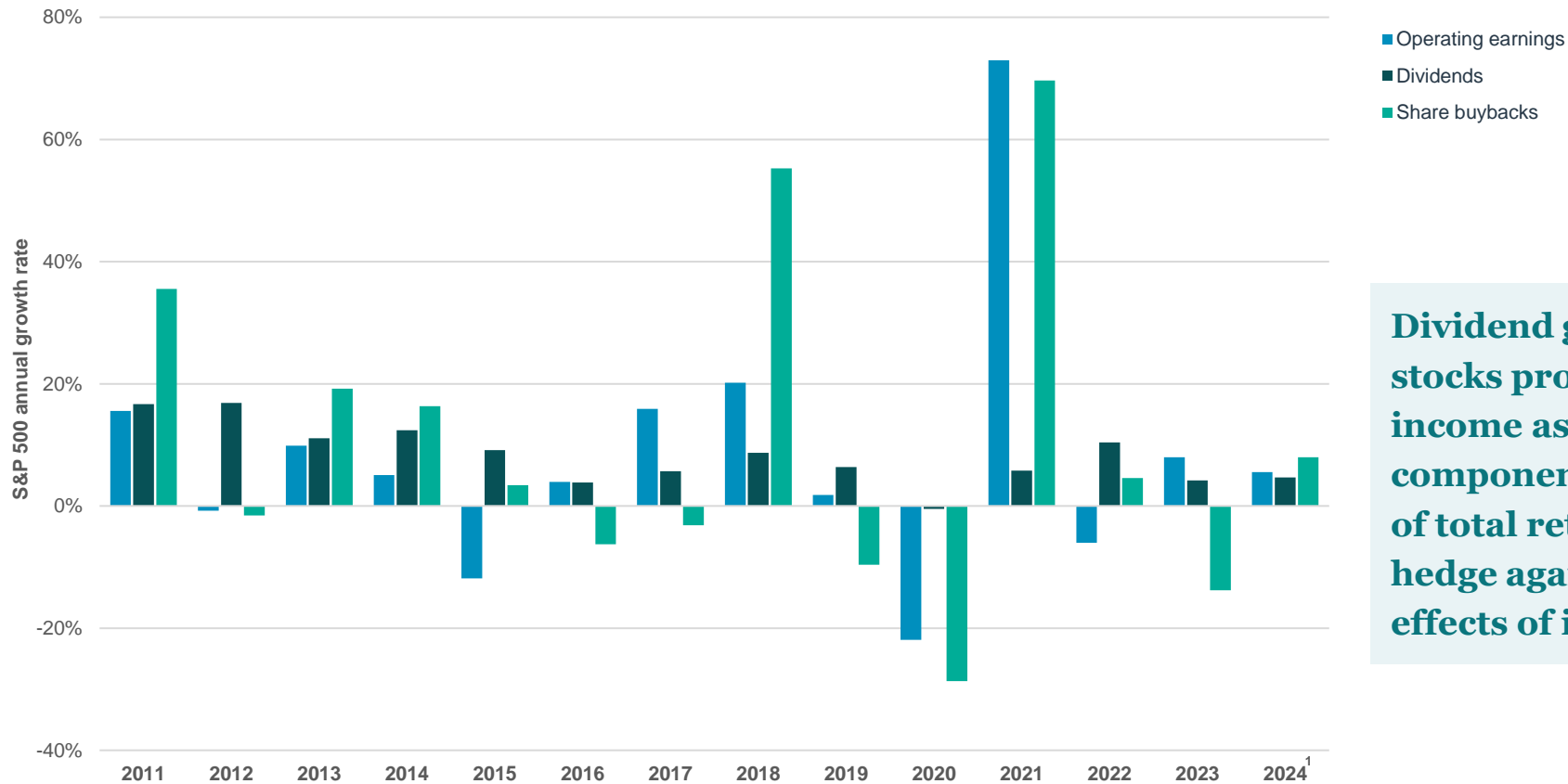
\*Data represented for the percentage of unprofitable companies are from the following quarters: Tech Bubble: Fourth quarter 2001; Global Financial Crisis: Fourth quarter 2008; Covid-19 Pandemic: First quarter 2020; Current: Fourth quarter 2024.

Data source: FactSet. Performance data shown represents past performance and does not predict or guarantee future results. Representative Indexes: Large Cap: S&P 500 Index; Small Cap: Russell 2000 Index.

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# Consensus estimates call for mid-single digit dividend growth for the S&P 500

While share buybacks have historically comprised a larger component of capital return, dividends have been less volatile.



**Dividend growth stocks provide stable income as a major component of total return, and hedge against the effects of inflation.**

<sup>1</sup> The period shown is as of 30 Jun 2024 and represents the trailing twelve months.

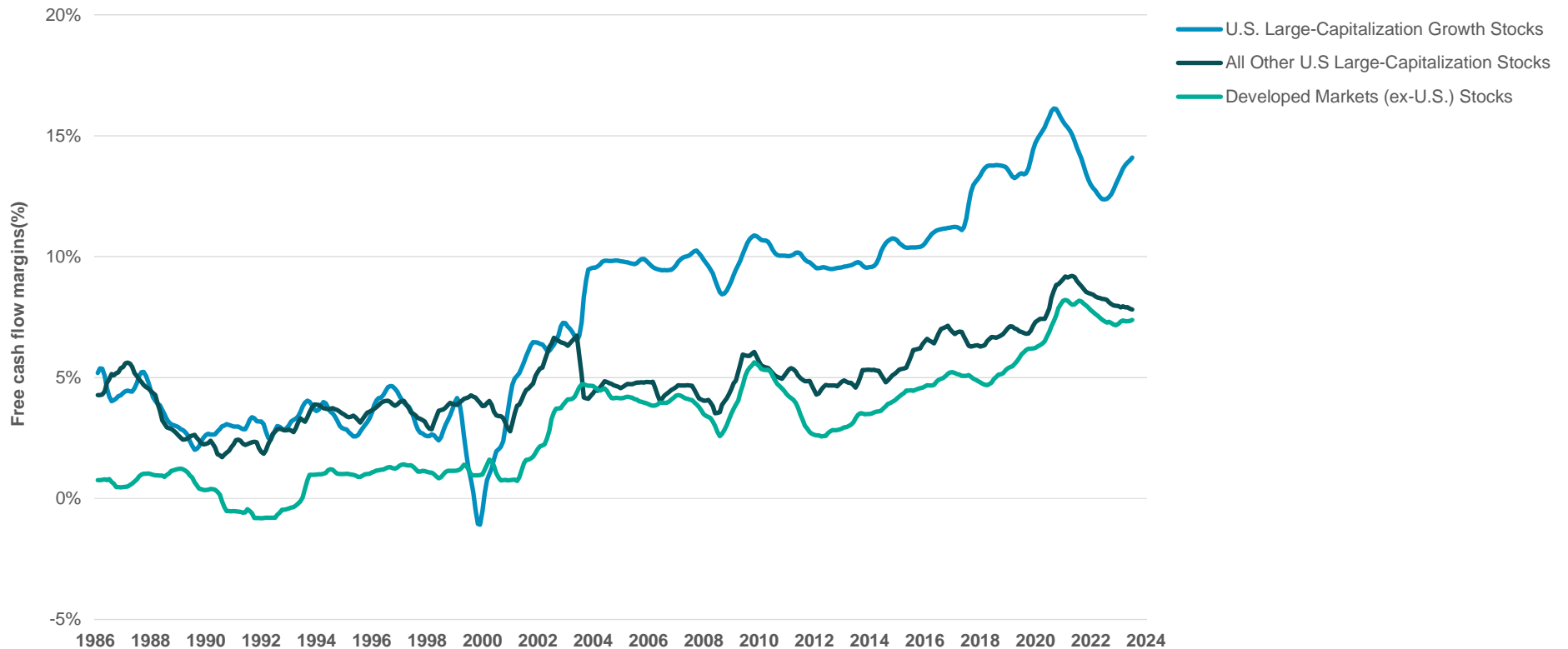
Data source: S&P Global, 01 Jan 2011 – 30 Jun 2024. Most recent data available. Performance data shown represents past performance and does not predict or guarantee future results.

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Market implications

# High quality large cap growth companies remain well positioned in 2025

Strong free cash flow margins should continue to differentiate select U.S. large cap growth companies with the ability to create long term economic value.



Data source: Empirical Research Partners Analysis, Jan 1987 – 30 Nov 2024. Measured in aggregate, data smoothed on a trading three-month basis. Performance data shown represents past performance and does not predict or guarantee future results.

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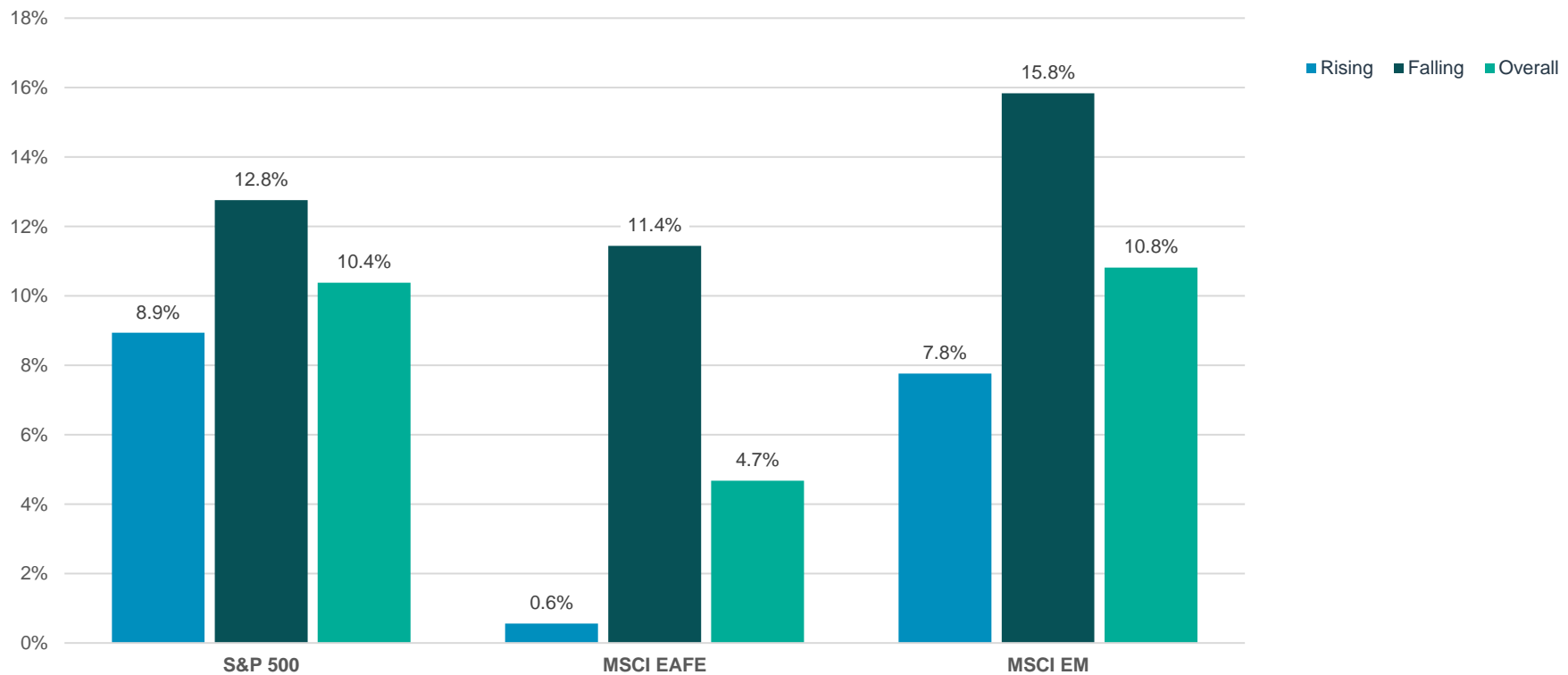


Market implications

# History shows that a depreciating U.S. dollar has led to solid returns for non-U.S. equity markets

However, the direction of the U.S. dollar remains uncertain pending the new administration's policy decisions.

Average annual performance when the Dollar Index is rising or falling



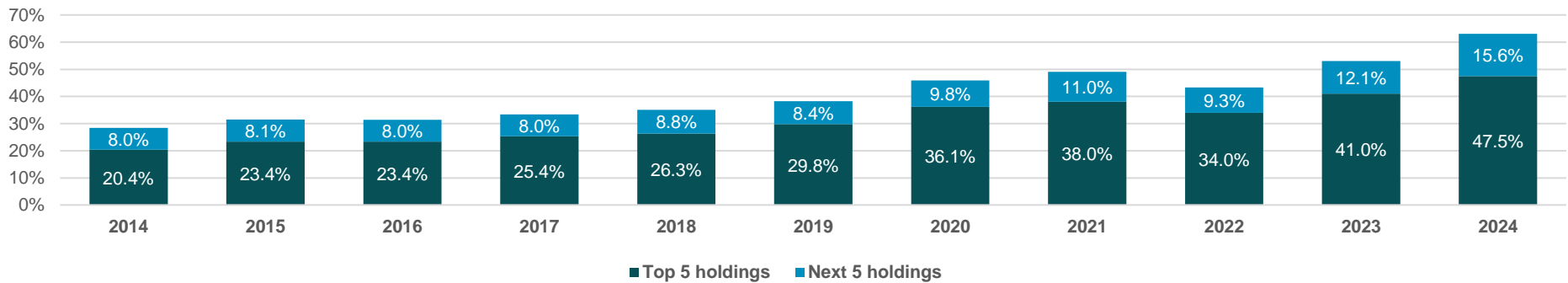
Data source: Strategas Securities, 1988 – 2024. Performance data shown represents past performance and does not predict or guarantee future results.

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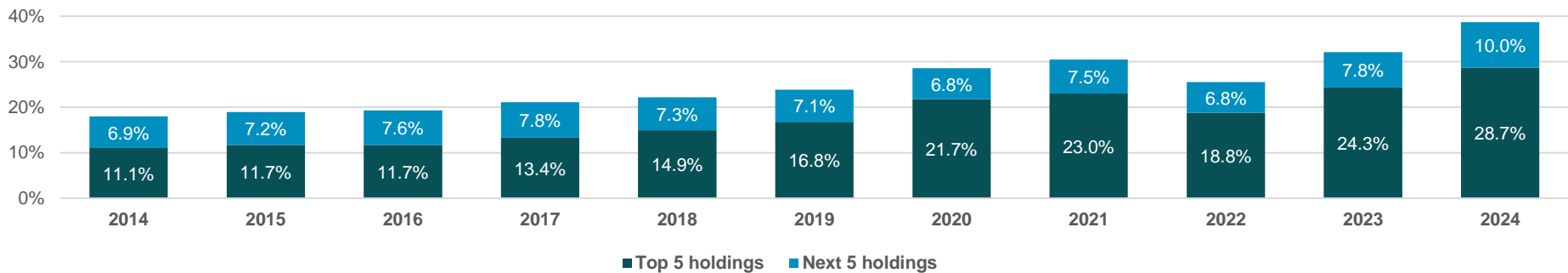
# The overall composition of U.S. large cap indices has grown increasingly concentrated

This is commensurate with the growing valuation disparity between market cap and equal weight.

### Weight of top 10 companies in the Russell 1000 Growth Index



### Weight of top 10 companies in the S&P 500 Index

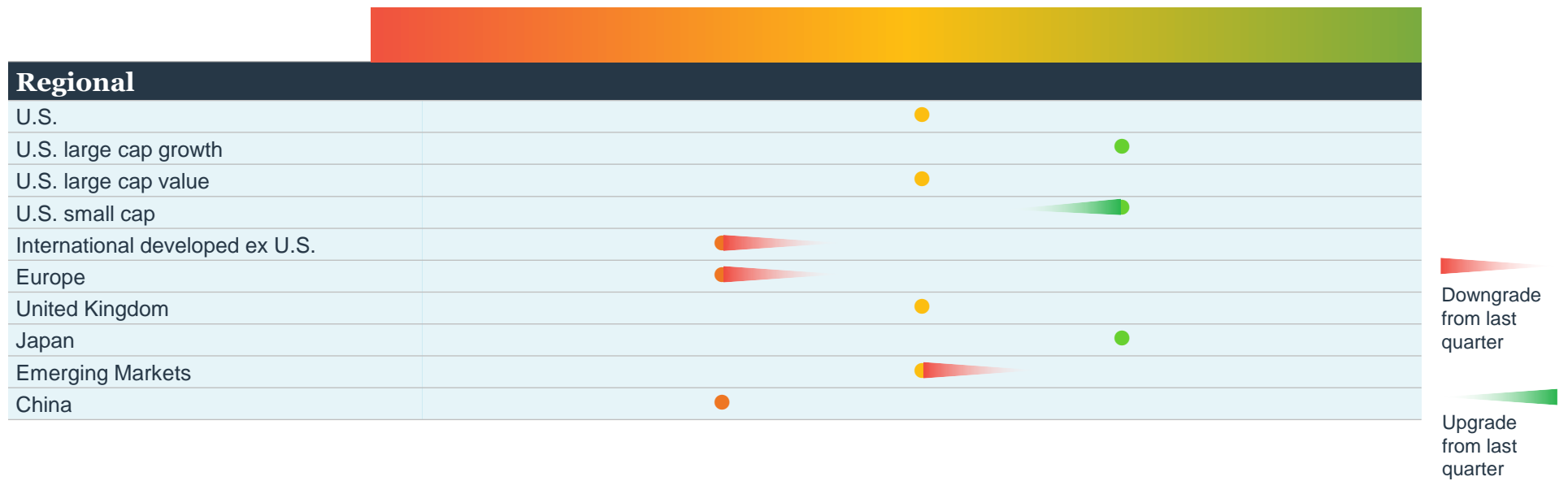


Data source: Nuveen as of 31 Dec 2024. Performance data shown represents past performance and does not predict or guarantee future results. The years shown represent the last trading day of the year.

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# What are our highest conviction equity views?

Our views on the best relative equity opportunities as first quarter 2025 begins



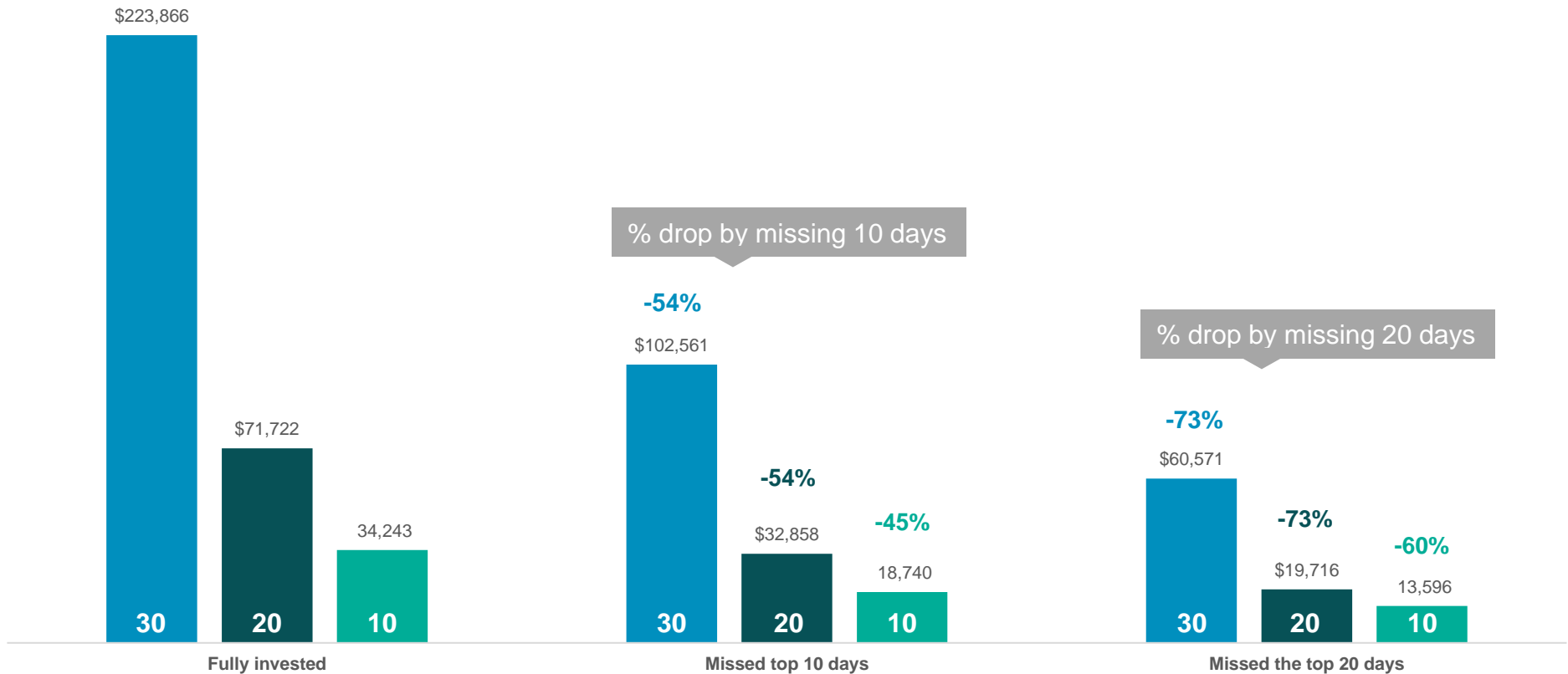
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# Staying invested has paid off

## The pain of missing out

### Growth of \$10,000 in the S&P 500 Index (10, 20 and 30 years)



Data source: Factset, 31 Dec 2024. Most recent data available. Performance data shown represents past performance and does not predict or guarantee future results. Data do not represent the past performance of any Nuveen product or service.

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# Markets recover with time

In 84 of 91 market declines, the recovery was less than one year.

## Historical equity market drawdowns and subsequent recoveries (1937 – 2024)

Drawdown		Occurrences	Average recovery time (months)	
-5%	to	-10%	58	1.4
-10%	to	-20%	21	3.4
-20%	to	-30%	5	12.1
-30%	to	-40%	3	11.2
-40%	to	-50%	2	35.3
-50%	+		2	56.2

Data source: Factset, 31 Dec 2024. Most recent data available Performance data shown represents past performance and does not predict or guarantee future results. Average recovery time portrays the market trough until it reaches the previous market peak.

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# Outlook

## Best ideas

- We continue to find select opportunities with companies that exhibit strong fundamentals, including pricing power, that can help overcome inflation and defend free cash flow margins.
- We prefer U.S. large cap, particularly dividend growers, along with global infrastructure and high-quality growth, and are growing more constructive on areas within U.S. small cap.
- Outside of the U.S., we continue to see opportunities within Japan, but are increasingly cautious towards other developed and emerging markets until we see economic and investment conditions improve.

## Risks to consider

- Central banks around the world continue to respond to inflation with elevated interest rates while contending with volatile economic data, leading to increased risks about market expectations.
- Margin pressure, combined with tight financial conditions, could lead to lower expectations for corporate earnings growth.
- Intermediate- and long-term risks include conflicts in Ukraine and Israel/Middle East, a new Cold War emerging between Russia/China and the West, leading to increased defense spending and deglobalization.

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Debt or fixed income securities are subject to market risk, credit risk, interest rate risk, call risk, tax risk, political and economic risk, derivatives risk, income risk, and other investment company risk. As interest rates rise, bond prices fall. Credit risk refers to an issuer's ability to make interest payments when due. Below investment grade or high yield debt securities are subject to liquidity risk and heightened credit risk. Foreign investments involve additional risks as noted above.

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