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Challenges loom for global equities despite a third-quarter rally

Equities market update

30 Sep 2024

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Markets remain optimistic regarding additional rate cuts before year end

Monetary policy will continue to drive equity markets

Macroeconomic factors

- Support for additional rate cuts remains influx
- The labor market has softened despite recent revisions, but consumers appear relatively resilient, despite showing some signs of stress
- Payment delinquencies are increasing as borrowing costs and standards remain tight
- Geopolitical tension and economic uncertainty overseas remain

Market implications

- 2025 U.S. earnings expectations remain at mid double-digit growth
- Defending corporate margins remains a top priority
- Expectations of broader market participation remain despite continued narrowness
- Select opportunities in high quality equities, dividend payers and infrastructure
- Active management opportunities remain due to the narrowness of the market

Risks to expectations

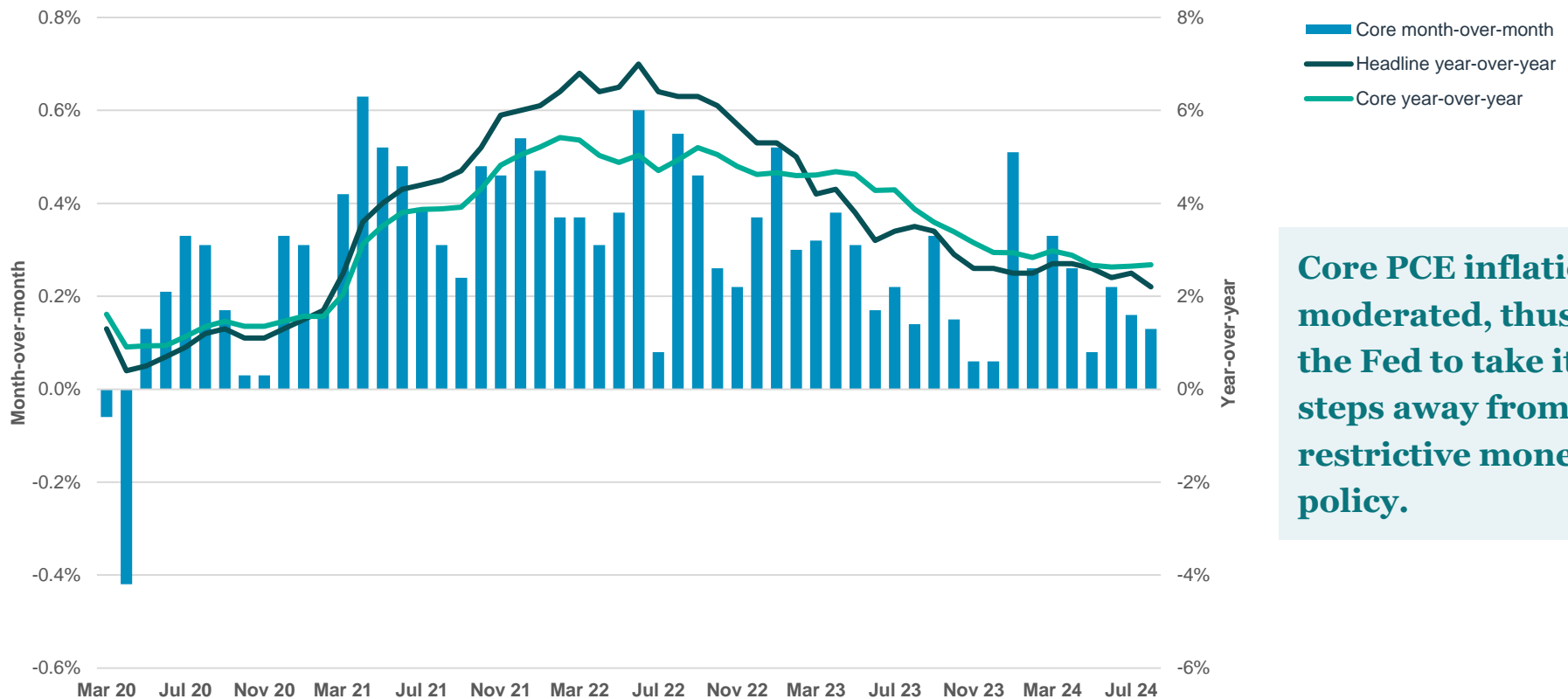
- Downward earnings revisions driven by margin contraction or demand destruction
- Central bank policy error
- Subsequent wave of global inflationary pressures
- Initial cracks to consumer resilience worsen
- Geopolitical uncertainty and U.S. political volatility

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Inflation has continued to moderate towards the Fed's target, but remains in focus

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

Personal Consumption Expenditures (PCE) Price Index



Core PCE inflation has moderated, thus allowing the Fed to take its first steps away from restrictive monetary policy.

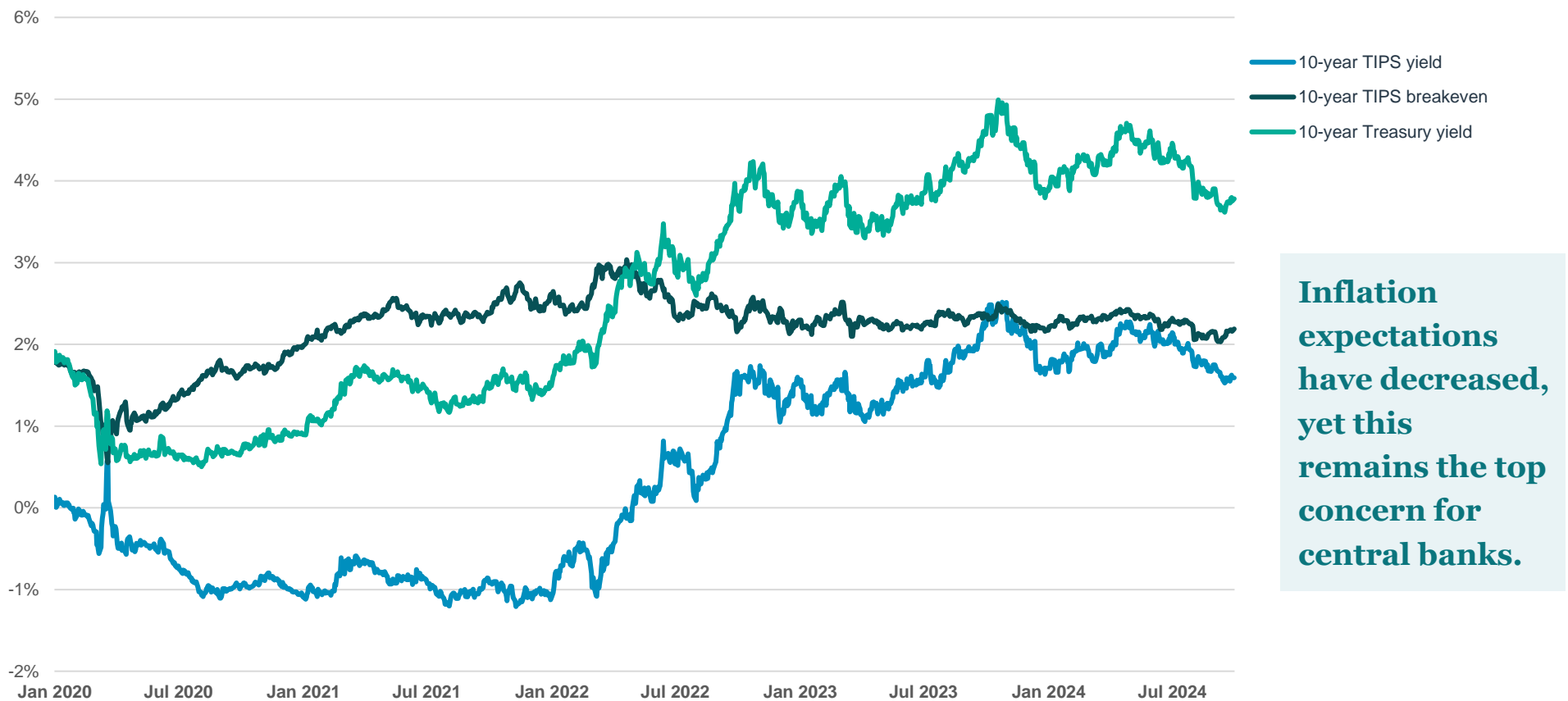
Data source: Bureau of Economic Analysis, Bloomberg, L.P., 31 Aug 2024. Most recent data available.

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Macro factors

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

Following rapid tightening of financial conditions, the Fed appears to be intent on a rate cutting cycle dependent on inflation moving sustainably towards 2%



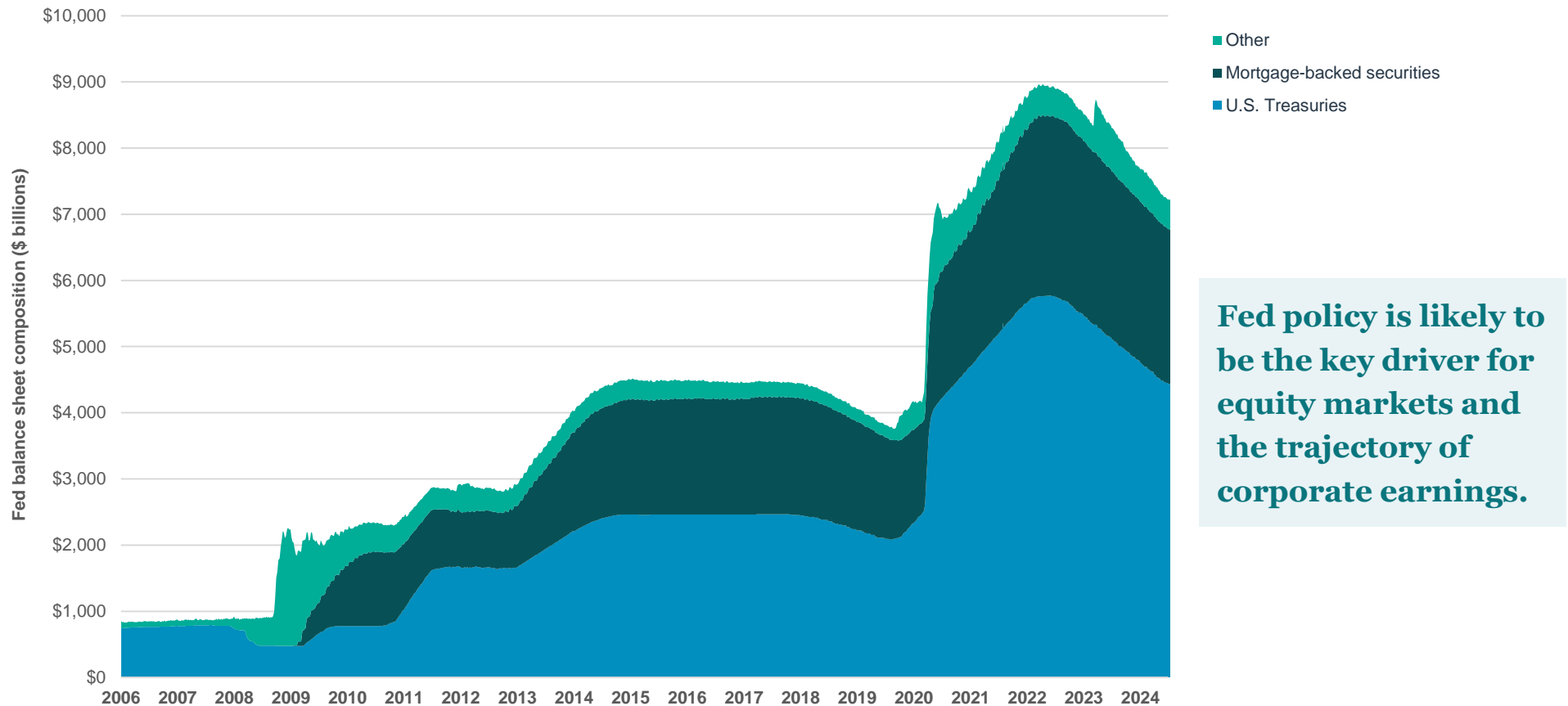
Inflation expectations have decreased, yet this remains the top concern for central banks.

Data source: Bloomberg, L.P., 01 Jan 2020 – 30 Sep 2024. Performance data shown represents past performance and does not predict or guarantee future results.

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While the Fed starts easing restrictive monetary policy, the balance sheet continues to normalize

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



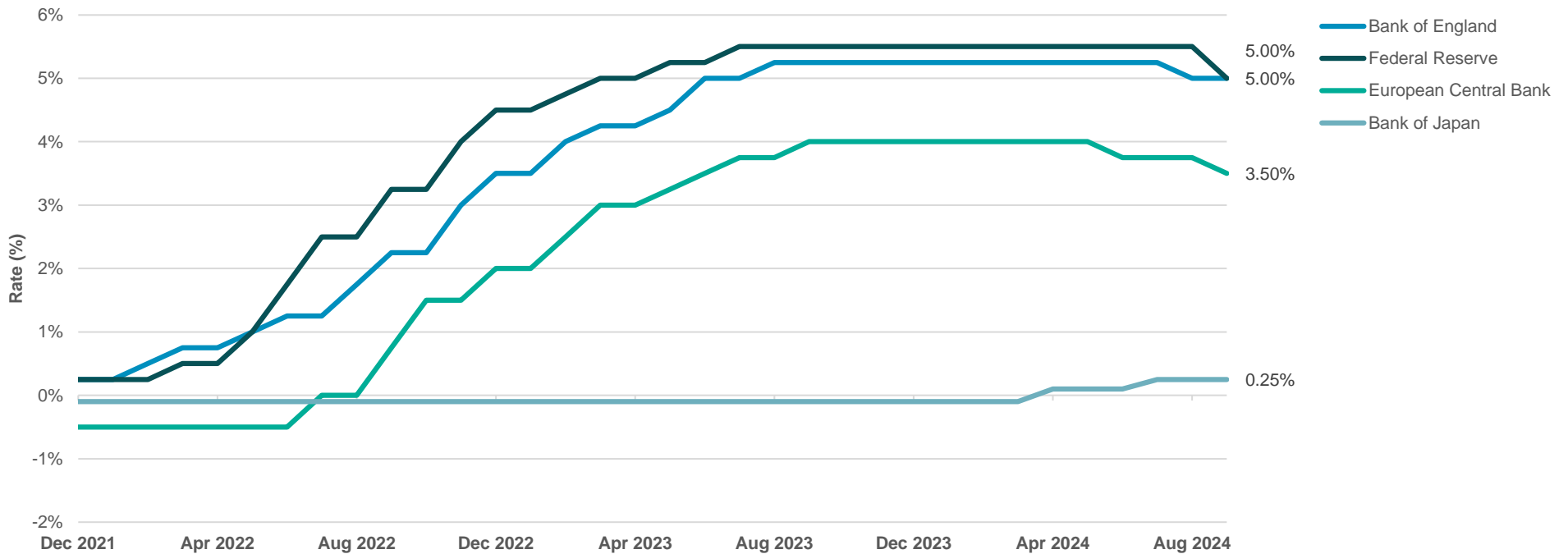
Data sources: Federal Reserve Board, [Federalreserve.gov](https://www.federalreserve.gov), 04 Jan 2006 – 02 Oct 2024.

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

The ECB and BoE both reduced rates, but are monitoring data regarding future policy

Global central bank policy rates (%)

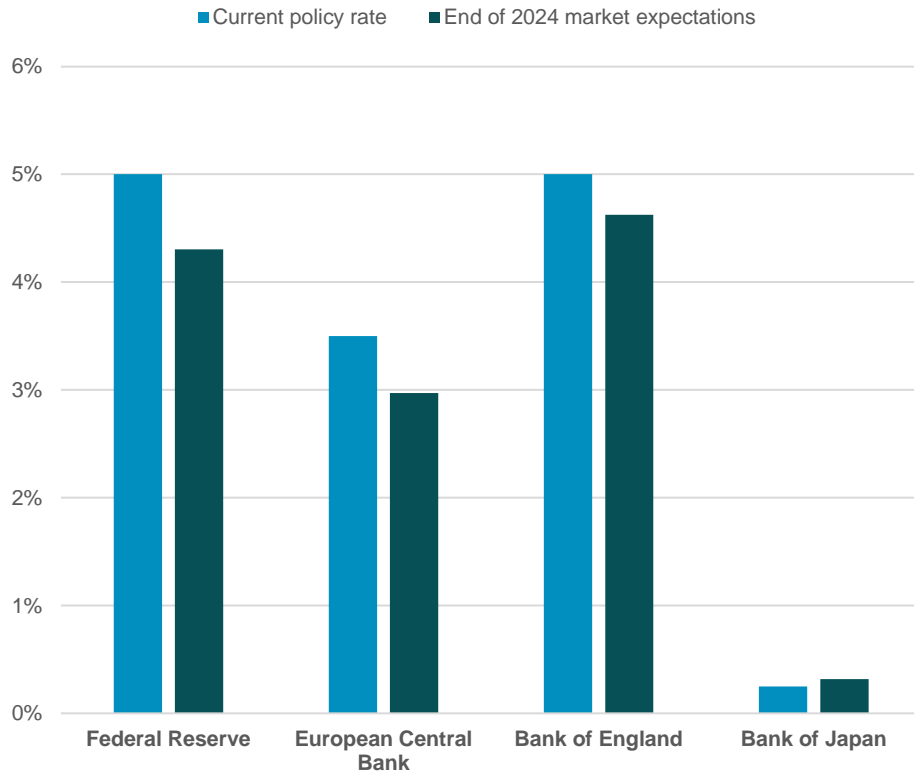


Source: Nuveen Portfolio Strategy Group, Bloomberg, 31 Dec 2021 - 30 Sep 2024.
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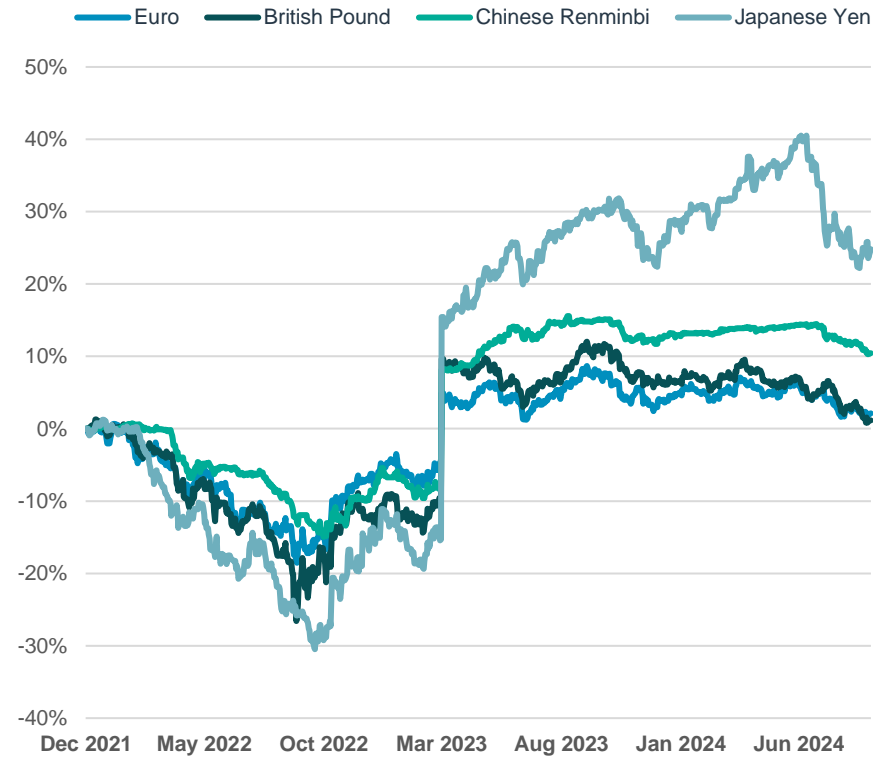
U.S. dollar depreciation is more likely amidst the evolving landscape with global monetary policy

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

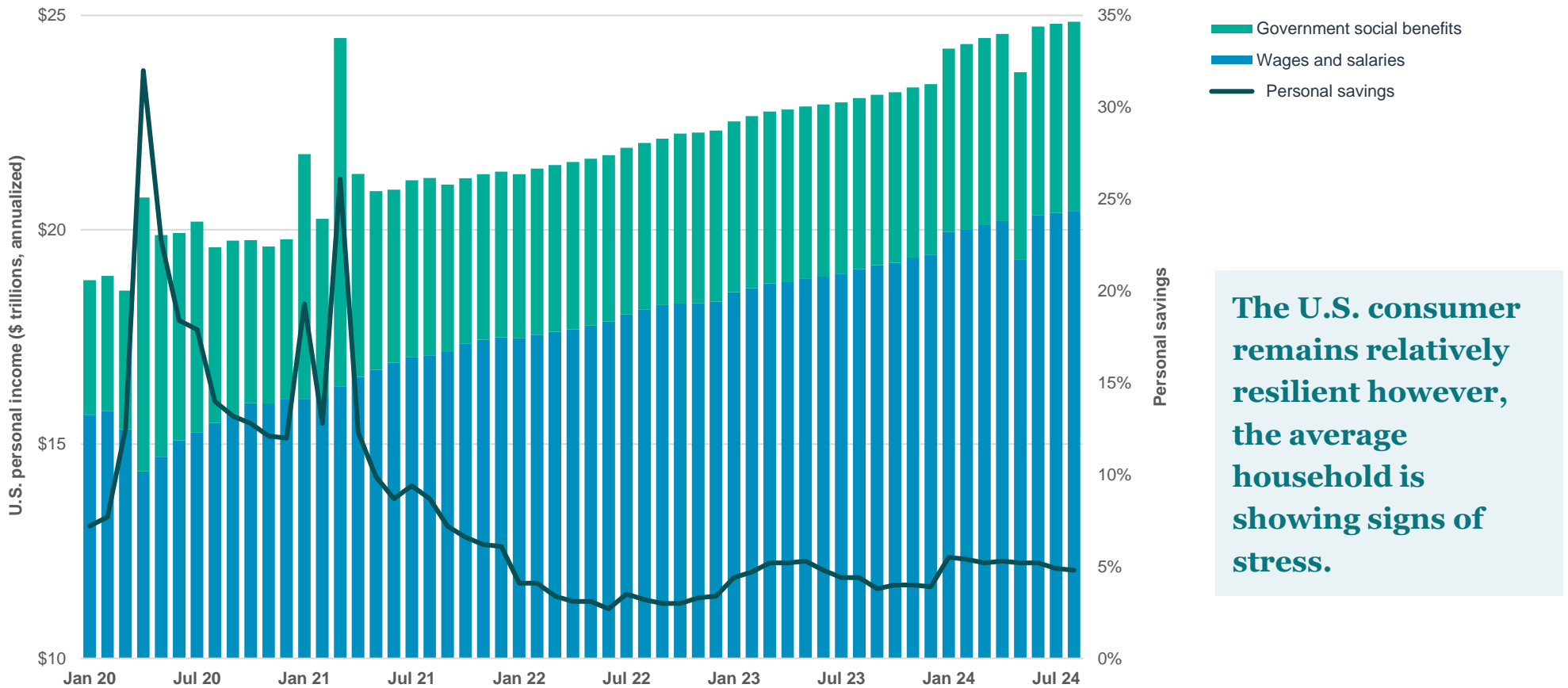


Source: Bloomberg, Nuveen Portfolio Strategy & Solutions, 31 Dec 2021 – 30 Sep 2024. Performance data shown represents past performance and does not predict or guarantee future results.

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Personal savings rates continue to decrease

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



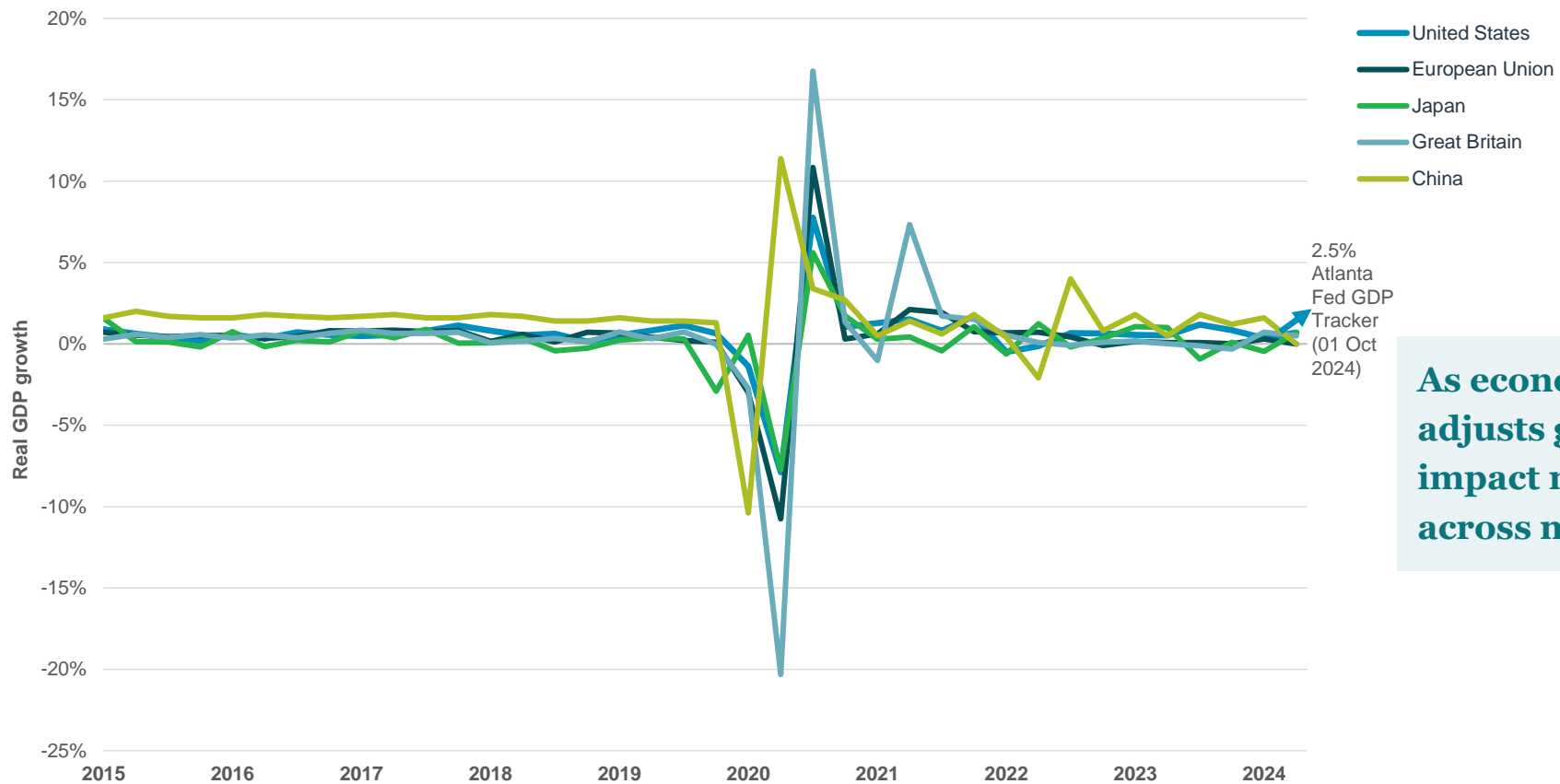
The U.S. consumer remains relatively resilient however, the average household is showing signs of stress.

Data source: Bureau of Economic Analysis, 31 Aug 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. 2.5% is the Atlanta Fed GDP Tracker for third quarter 2024.

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The Nuveen Macro Market Monitor

HOW ARE THESE FACTORS AFFECTING THE U.S ECONOMY		AS OF 30 Sep 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	5.0%
	Financial conditions	98.7
		Generally restrictive, given the current fed funds rate and the impact of higher overall rates on financial conditions.
ECONOMIC ACTIVITY	Consumer expectations	73.0
	Household debt service ratio	9.8%
	Housing starts	1.36M
	Economic surprises	-0.80
		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.
EMPLOYMENT	Jobless claims	218,000
	Job openings	7.7M
		Healthy, with jobless claims and job openings near their 20-year lows and highs, respectively.
INVESTOR SENTIMENT	Broad investor sentiment	1.0
	Individual investor survey	25.9
		Mixed, with individual investors reflecting more optimism than the overall investor community.
U.S EQUITY FUNDAMENTALS	S&P 500 forward price to earnings ratio	21.6x
	S&P 500 forward expected earnings growth	14.2%
	Revisions to expected earnings	2.3%
		While positive earnings revisions are a plus, index-level valuations and below-median expected earnings growth warrant caution.

● Positive ● Neutral ● Negative

Data source: Bloomberg L.P., 30 Sep 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.

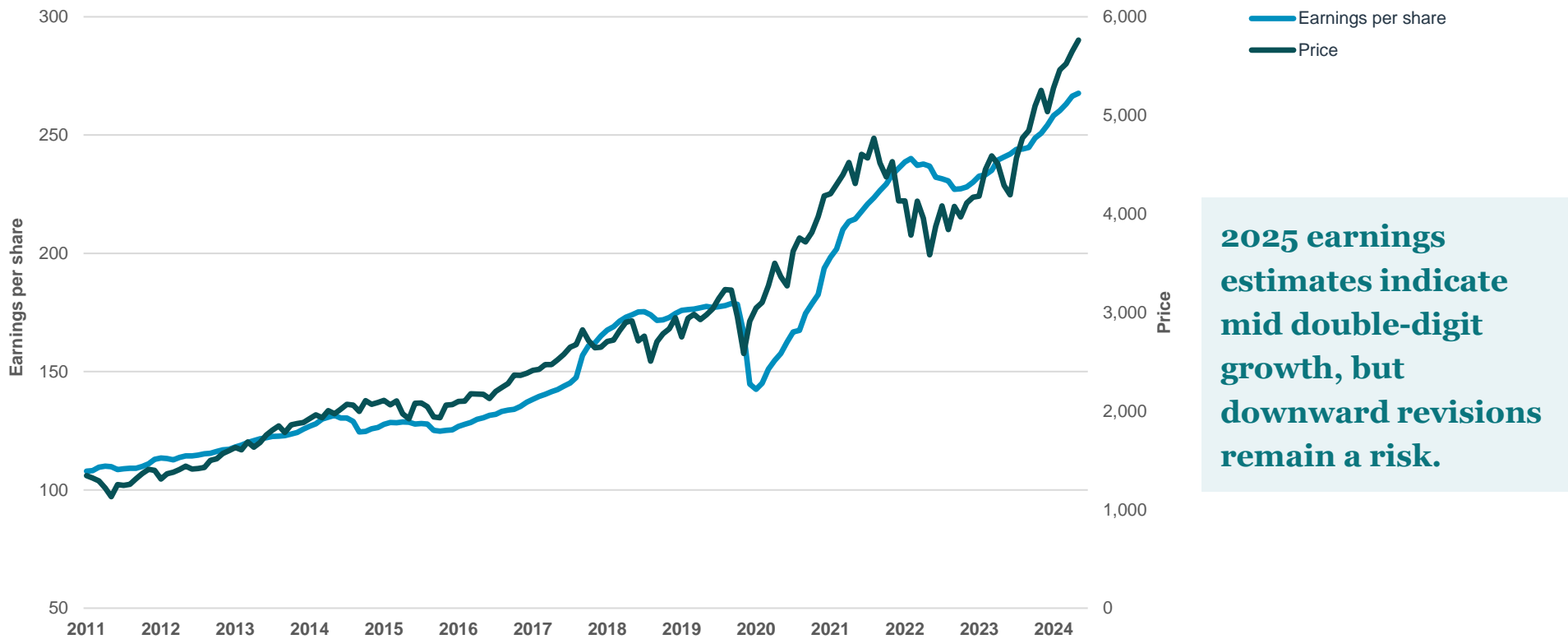
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Market implications

U.S. equity markets are near all-time highs as earnings growth expectations materialize

P/E multiples remain above 10-year averages, however recent earnings growth has prevented valuations from increasing further

S&P 500 Index



Data source: FactSet, 31 May 2011 – 30 Sep 2024. Performance data shown represents past performance and does not predict or guarantee future results.

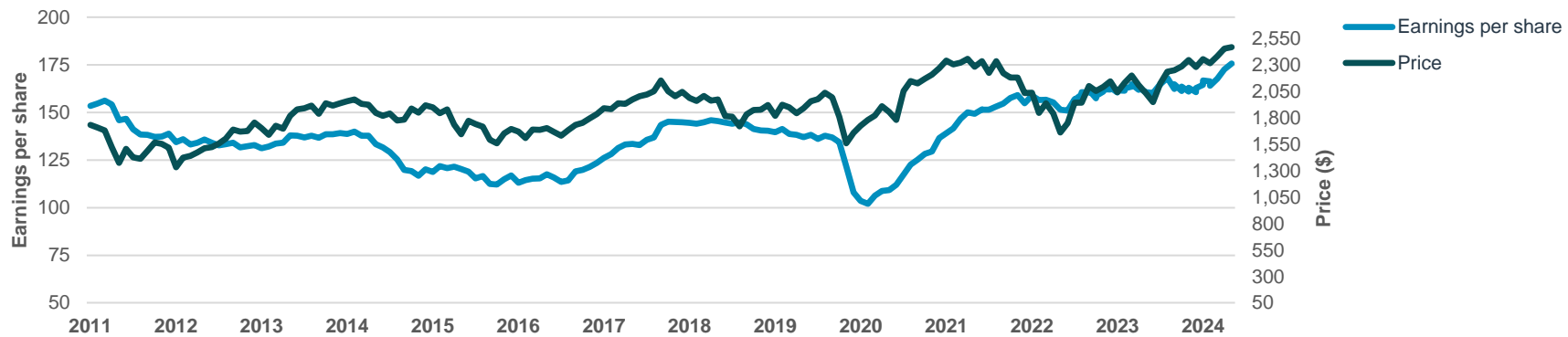
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Market implications

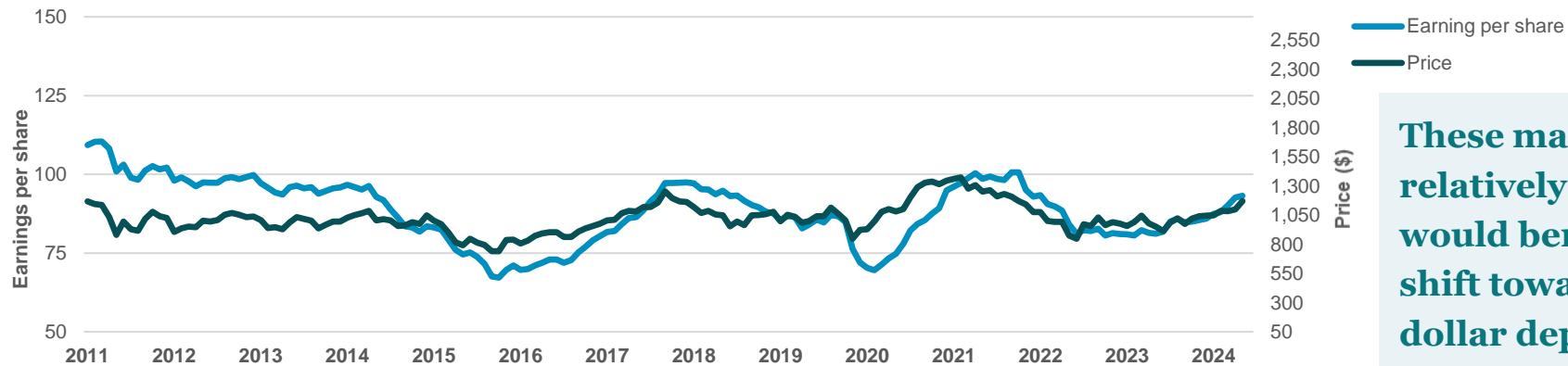
Long-term outlook remains positive, and we have become more constructive on the near term

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.

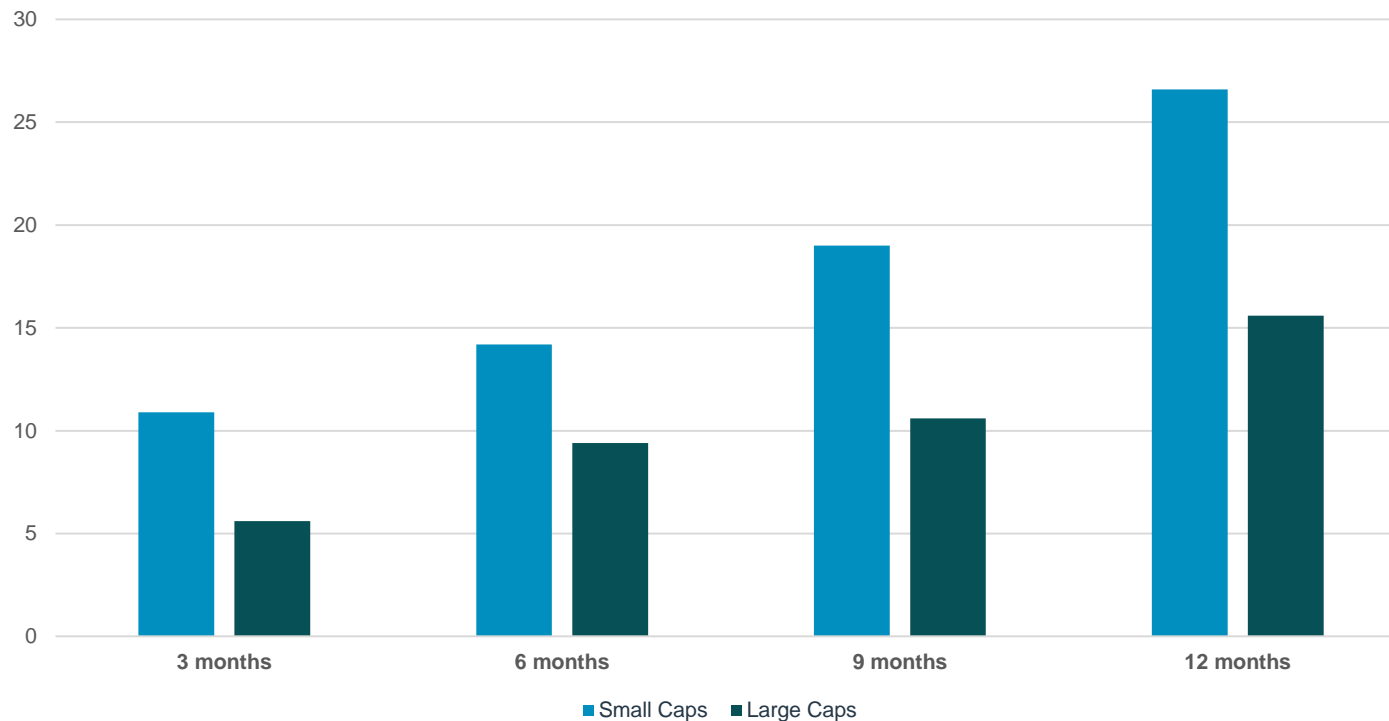
Data source: FactSet, 31 May 2011 – 30 Sep 2024. Performance data shown represents past performance and does not predict or guarantee future results.

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Market implications

Small caps historically outperform following the first rate cut

Active management remains important given the percentage of unprofitable companies in the broad small cap index



Revenue and earnings growth continue to hold up, but slowing economic growth does not bode well for upward revisions.

Average returns based on past 13 rate-cut environments starting November 1957.

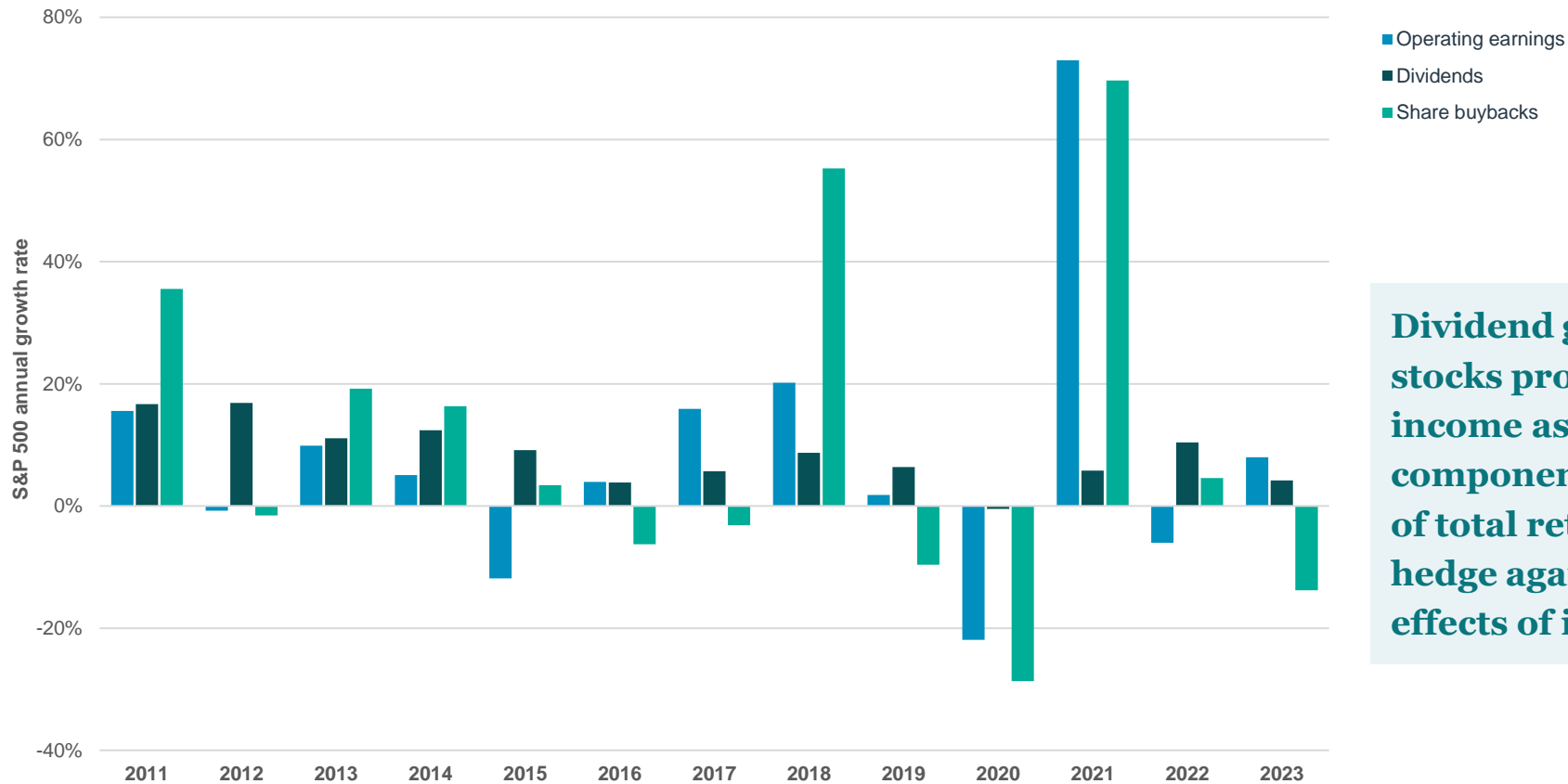
Reflects the use of the federal funds rate from 1954 until 1963, the discount rate from 1963 until 1994 and the federal funds rate thereafter. Representative indexes: Large cap stocks: Russell 1000 Index, inception date 31 December 1978; small cap stocks: Russell 2000 Index, inception date 1 January 1984. **Past performance does not predict or guarantee future results.** It is not possible to invest directly in an index.

Sources: Federal Reserve Board, Haver Analytics, Center for Research in Security Prices (CRSP), University of Chicago Booth School of Business, Jefferies.

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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.



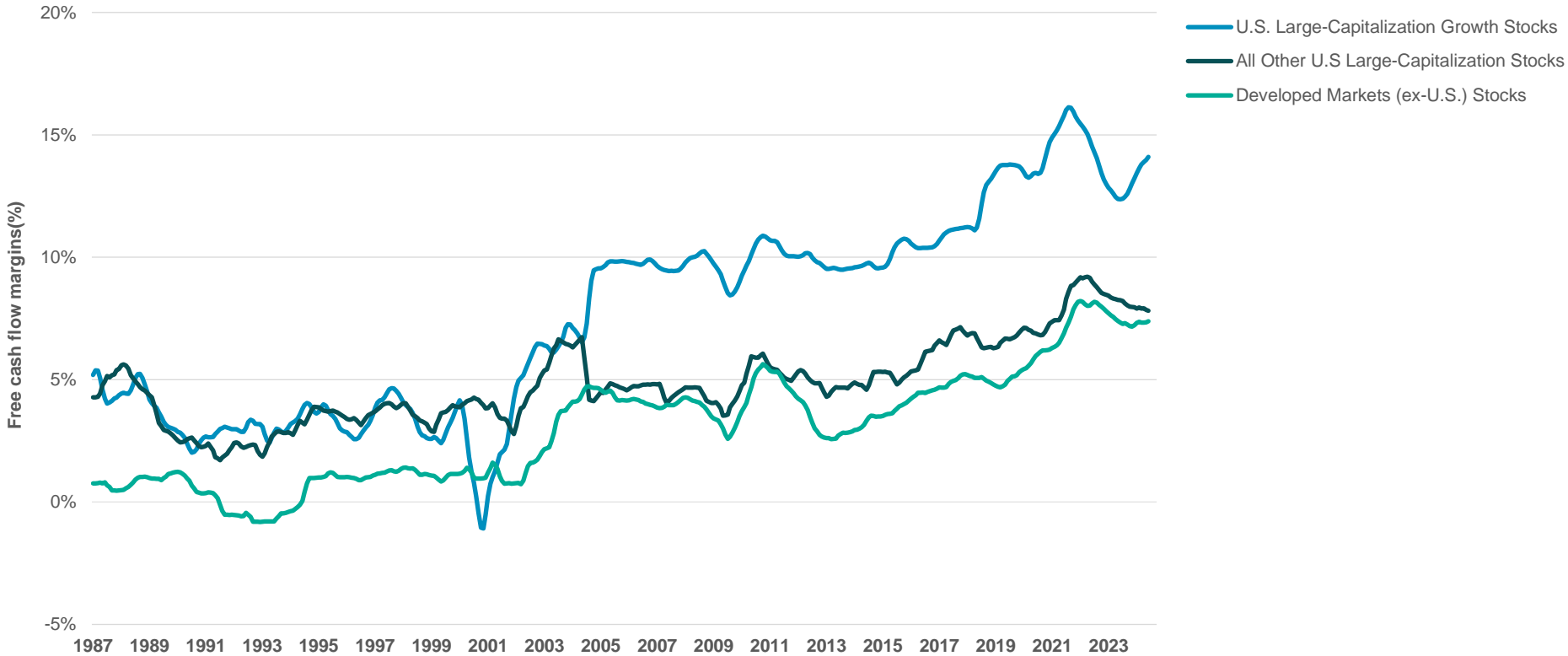
Dividend growth stocks provide stable income as a major component of total return, and hedge against the effects of inflation.

Data source: S&P Global, 01 Jan 2011 – 31 Dec 2023. Most recent data available. Performance data shown represents past performance and does not predict or guarantee future results.

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High quality large cap growth companies remain well positioned in 2024

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 – 31 Aug 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.

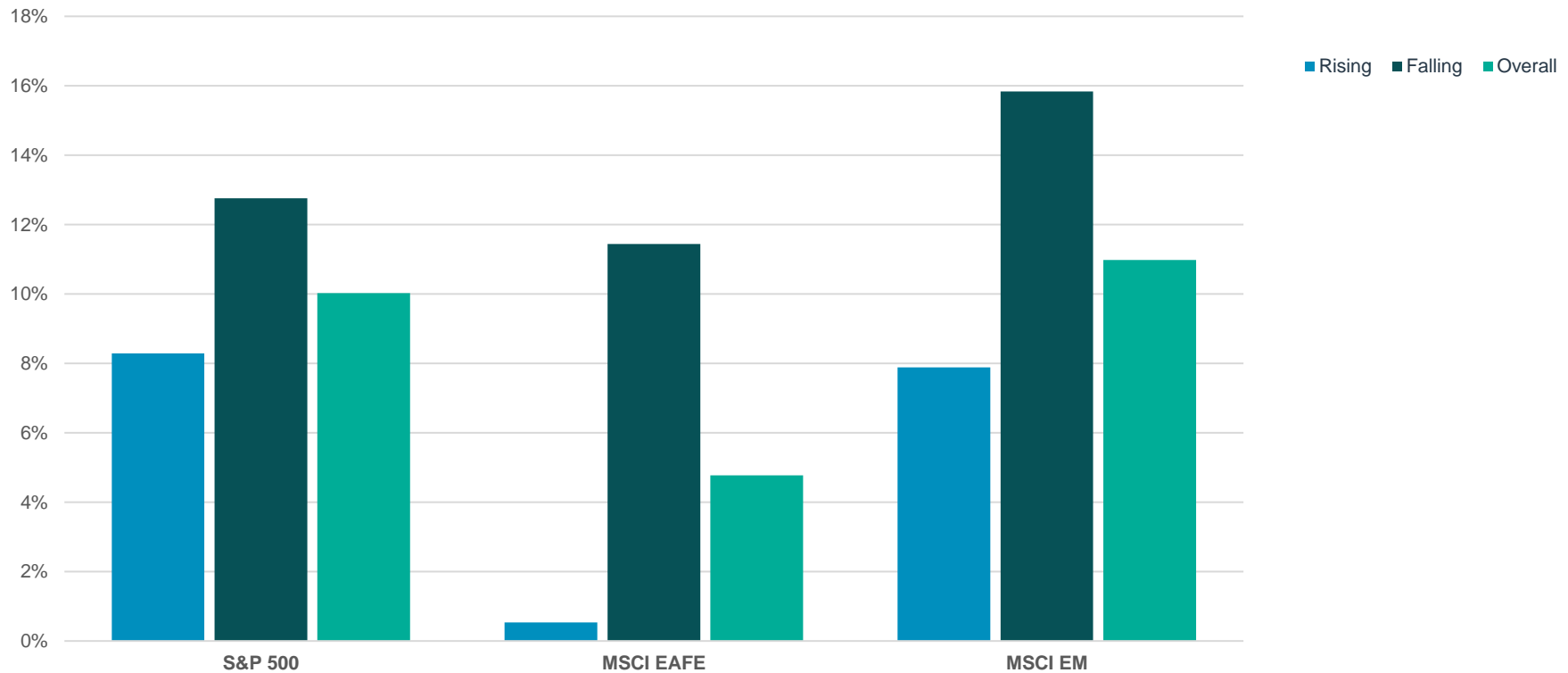
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Market implications

Differences in interest rates and growth rates suggest that dollar depreciation may sustain

However, a weaker U.S. dollar presents an opportunity for non-U.S. equities.

Average annual performance when the Dollar Index is rising or falling

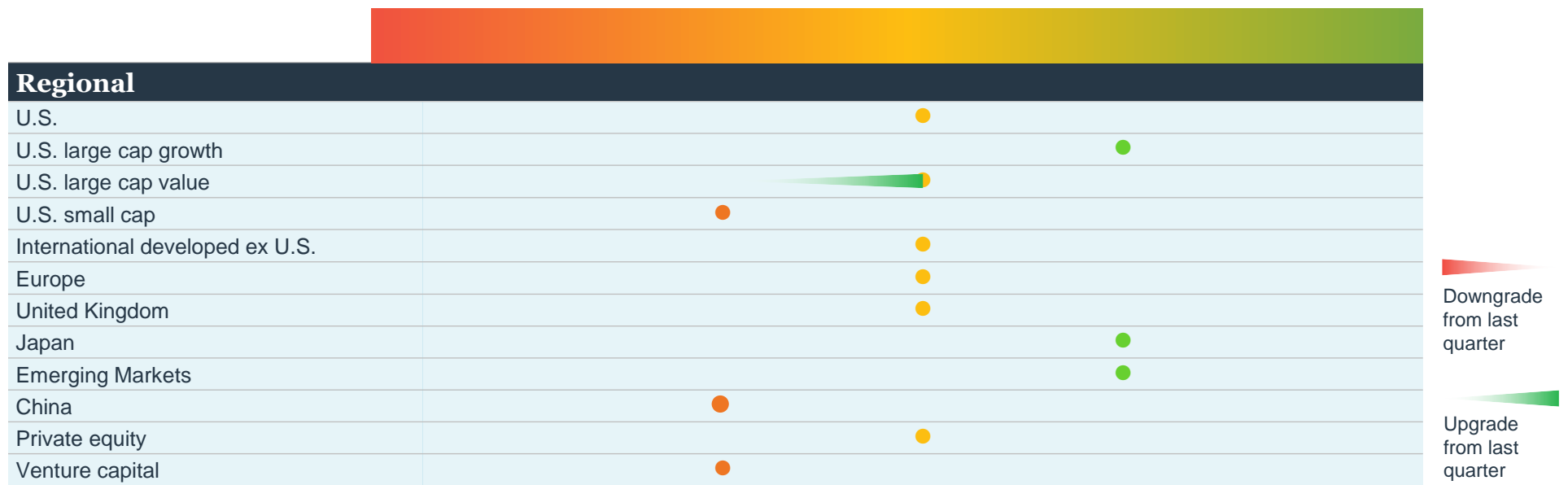


Data source: Strategas Securities, 1988 – 2023. Performance data shown represents past performance and does not predict or guarantee future results.

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What are our highest conviction equity views?

Our views on the best relative equity opportunities as fourth quarter 2024 begins



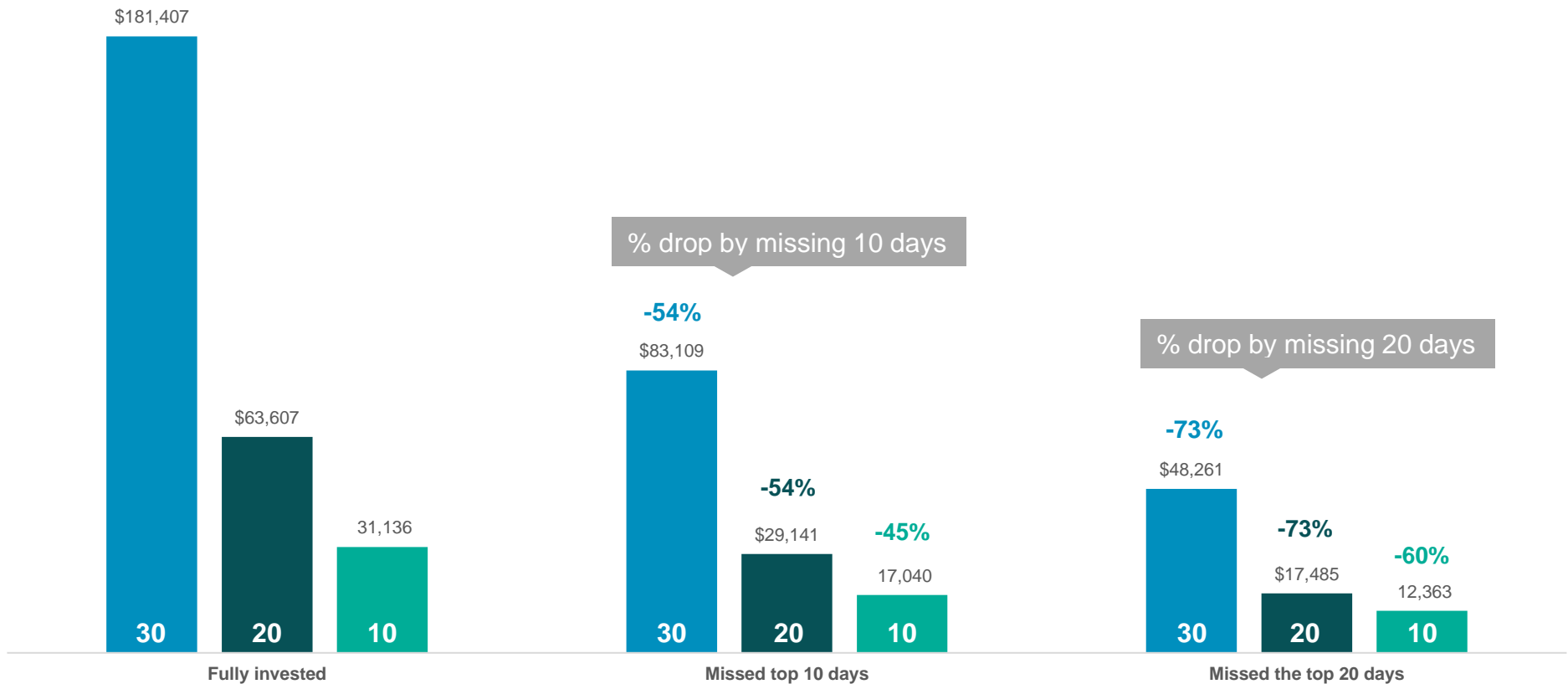
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Staying invested has paid off

The pain of missing out

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



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Markets recover with time

In 82 of 89 market declines, the recovery was less than one year.

Historical equity market drawdowns and subsequent recoveries (1937 – 2023)

Drawdown			Occurrences	Average recovery time (months)
-5%	to	-10%	56	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 2023. 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.
- Outside of the U.S., we see opportunities within Japan and select emerging markets, with minimal appetite for expanding other non-U.S. allocations 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 softening economic data, leading to increased risks about market expectations for a soft landing.
- 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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