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Equity markets frustrate both bulls and bears

2023 2Q equity outlook

April 2023

Macroeconomic concerns increase the probability of a mild recession

Monetary policy trajectory should continue to drive equity market volatility

Macroeconomic factors

- Monetary policy tightening is slowing in response to disinflation
- Consumers remain resilient amid resurgence of real wage growth
- Tight labor market shows some cracks, but overall remains strong
- Debt ceiling debate looms
- Geopolitical tension and economic weakness overseas remain

Market implications

- U.S. earnings expectations have come down, but further revisions may be warranted
- Corporate margins remain under pressure
- Valuations increased again in Q1 and exceed the 10-year average
- Select opportunities in high quality equities and income
- Active management opportunities

Risks to expectations

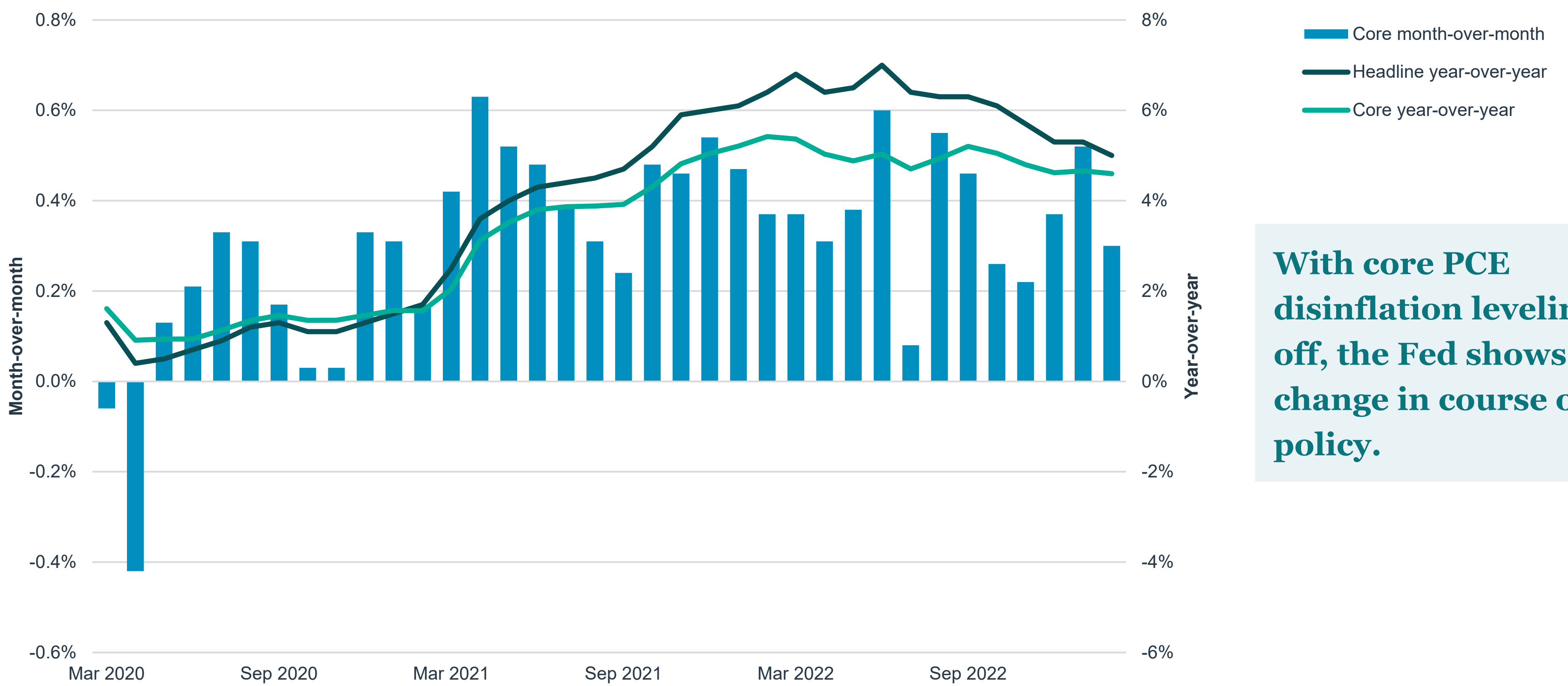
- Significant downward earnings revisions
- Central bank policy error
- Global inflationary pressures
- Economic growth slowdown
- Geopolitical uncertainty and U.S. political gridlock

Macro factors

Inflation has moderated slightly, but so has the rate of disinflation

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

PCE inflation



With core PCE disinflation leveling off, the Fed shows no change in course of policy.

Data source: Bureau of Economic Analysis, Bloomberg, L.P., 28 Feb 2023. Most recent data available.

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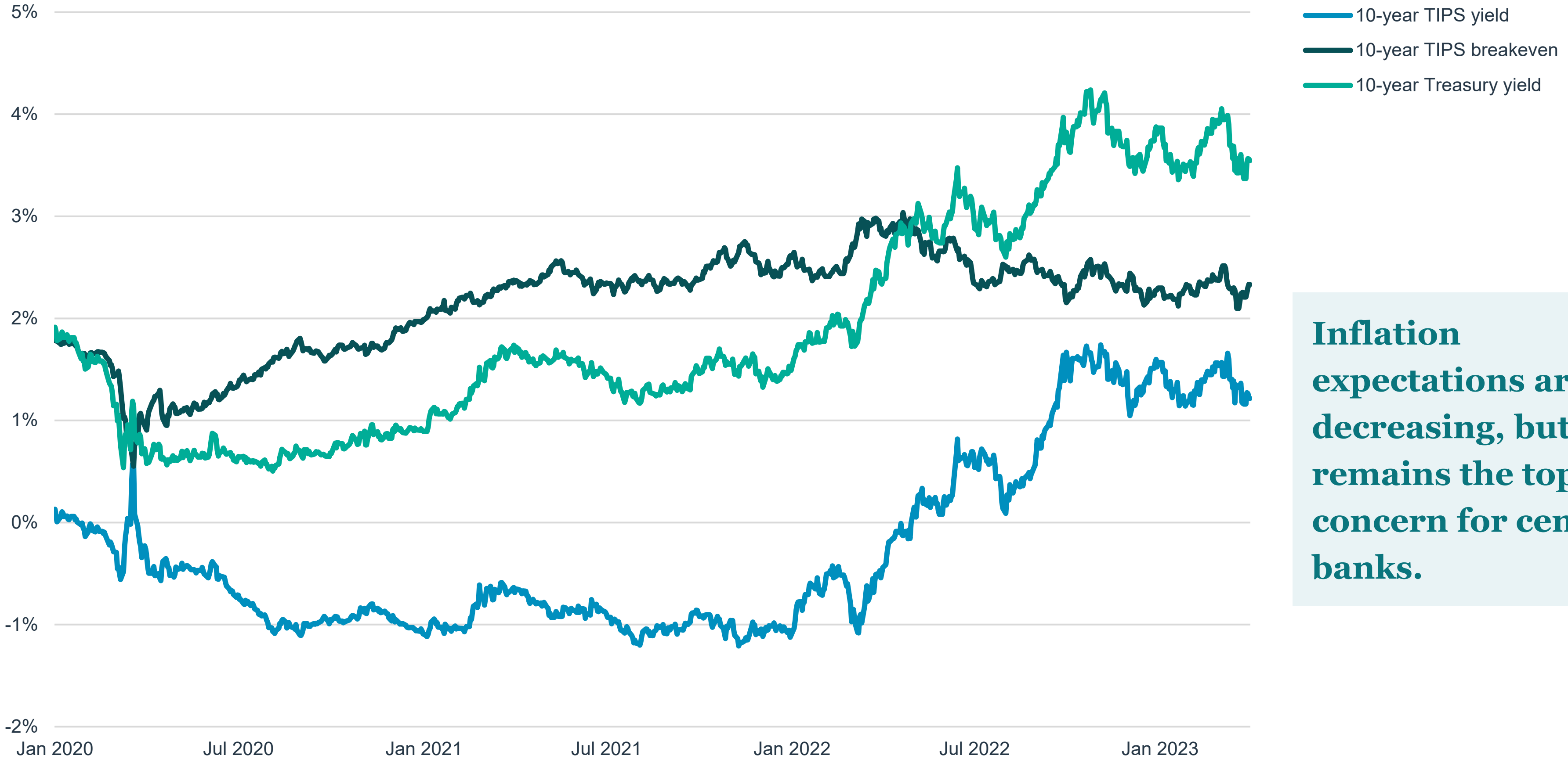
Interest rates are likely to remain elevated over the next year

Financial conditions tightened rapidly last year, and the Fed will likely continue at a slower pace



Inflation expectations are decreasing, but this remains the top concern for central banks.

Data source: Bloomberg, L.P., 01 Jan 2020 – 31 Mar 2023. **Performance data shown represents past performance and does not predict or guarantee future results.**

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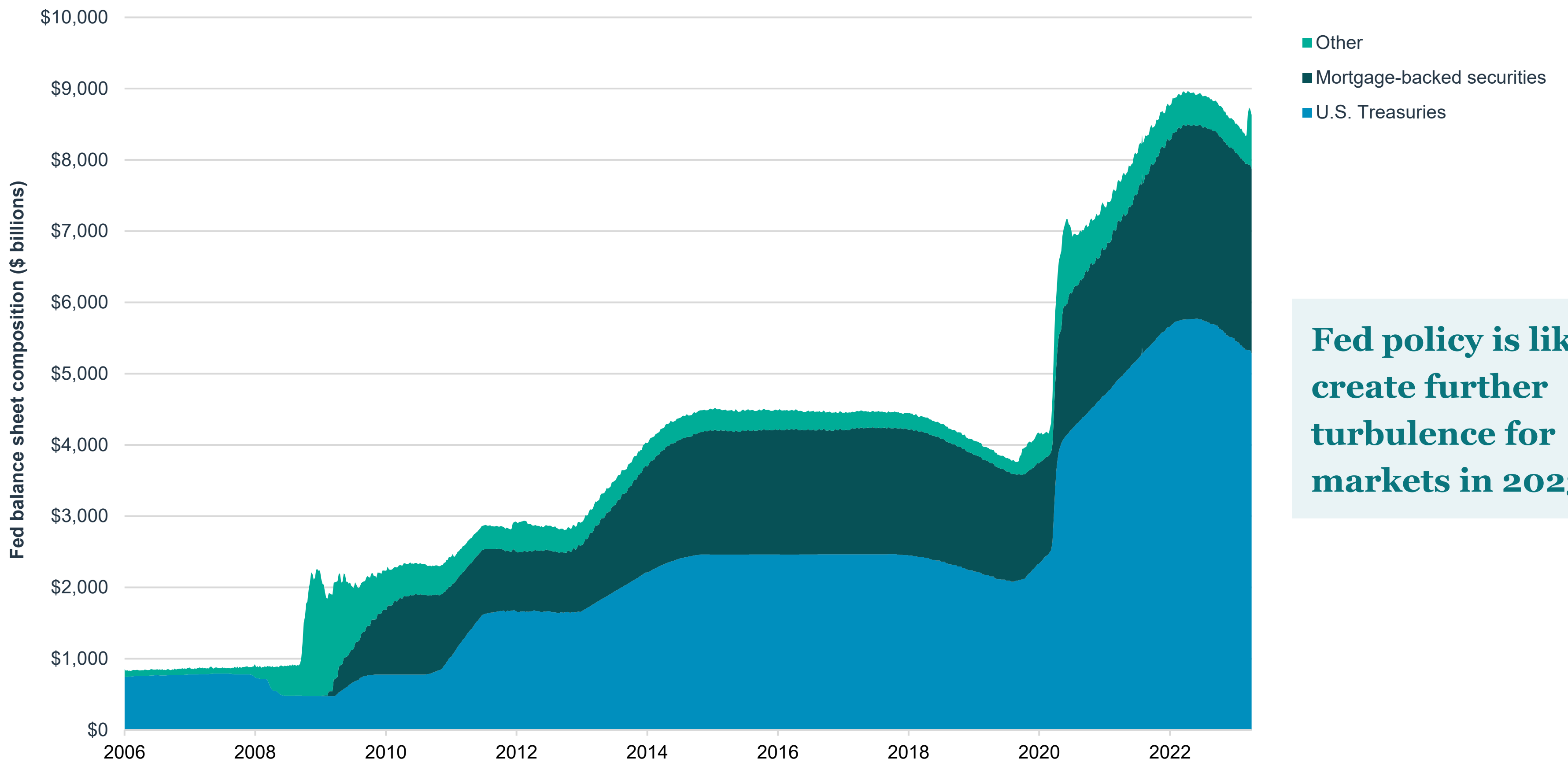
The Fed indicates it will raise rates further and wait longer to cut than markets expect

Capital markets digest rate hikes, likely reducing balance sheets at a more measured pace

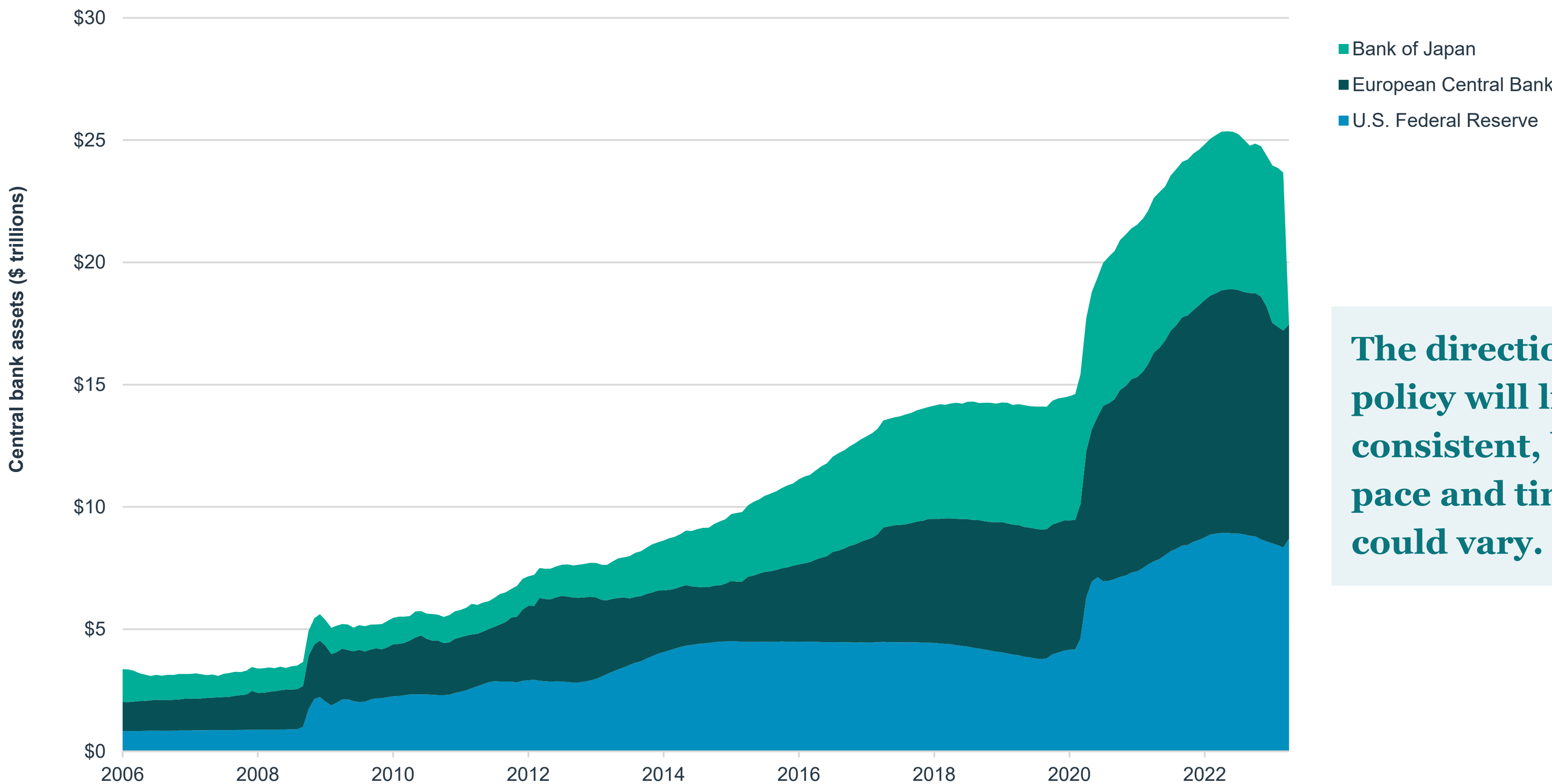


Fed policy is likely to create further turbulence for markets in 2023.

Data sources: Federal Reserve Board, Federalreserve.gov, 04 Jan 2006 – 05 Apr 2023.

Most central banks globally also remain hawkish

With global inflation still lingering, several central banks still plan to tighten policy



The direction of policy will likely be consistent, but the pace and timing could vary.

Data sources: Federal Reserve, St. Louis Fed, 04 Jan 2006 – 31 Mar 2023.

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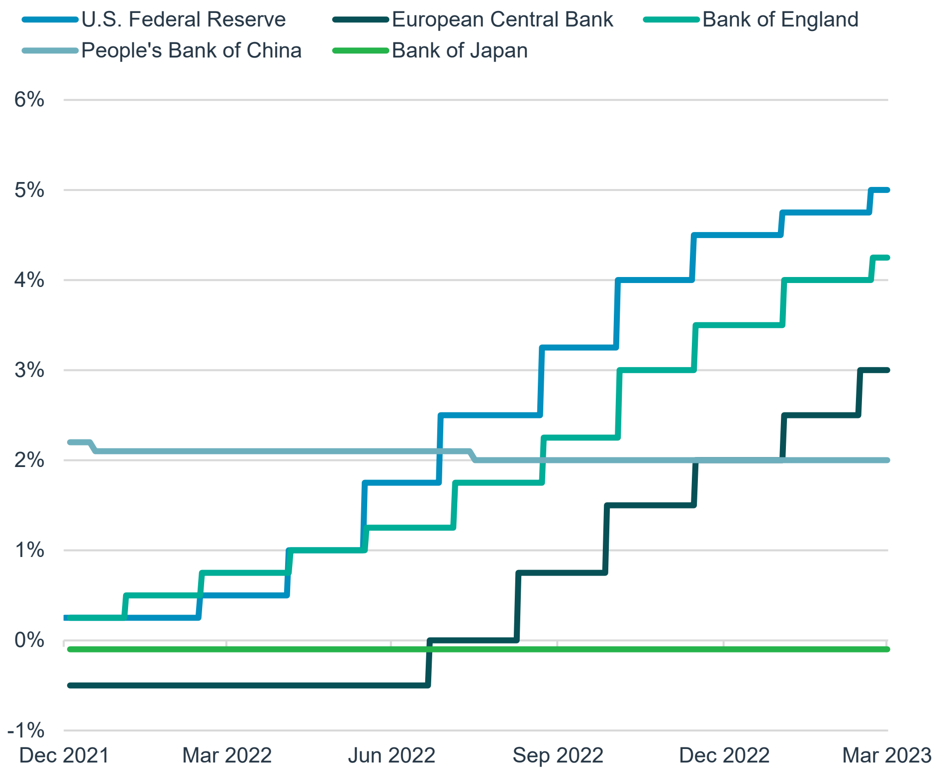
Macro factors

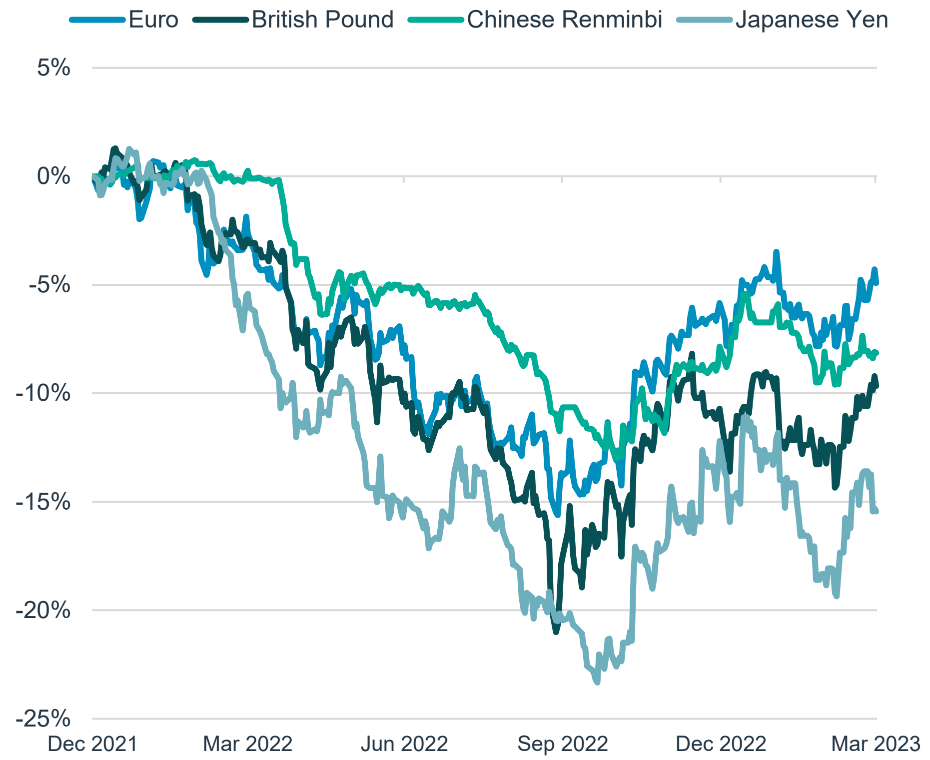
U.S. dollar has recently strengthened

The Fed is likely to reverse course before the ECB and BoE

Synchronous central bank tightening



Currency returns versus U.S. dollar



Source: Bloomberg, Nuveen Portfolio Strategy & Solutions, 31 Dec 2021 – 31 Mar 2023. **Performance data shown represents past performance and does not predict or guarantee future results.**

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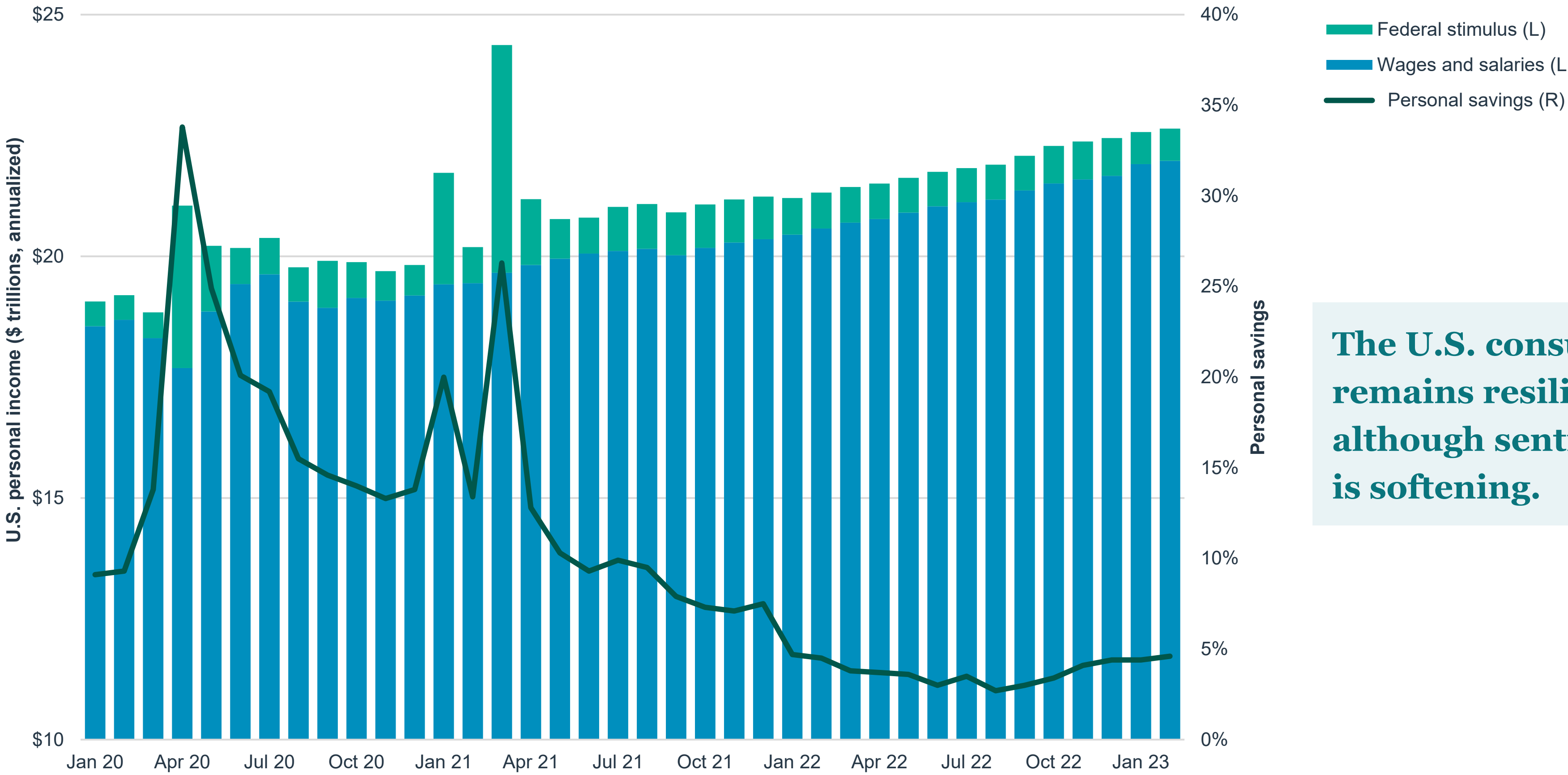
Personal savings rate decline has moderated

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

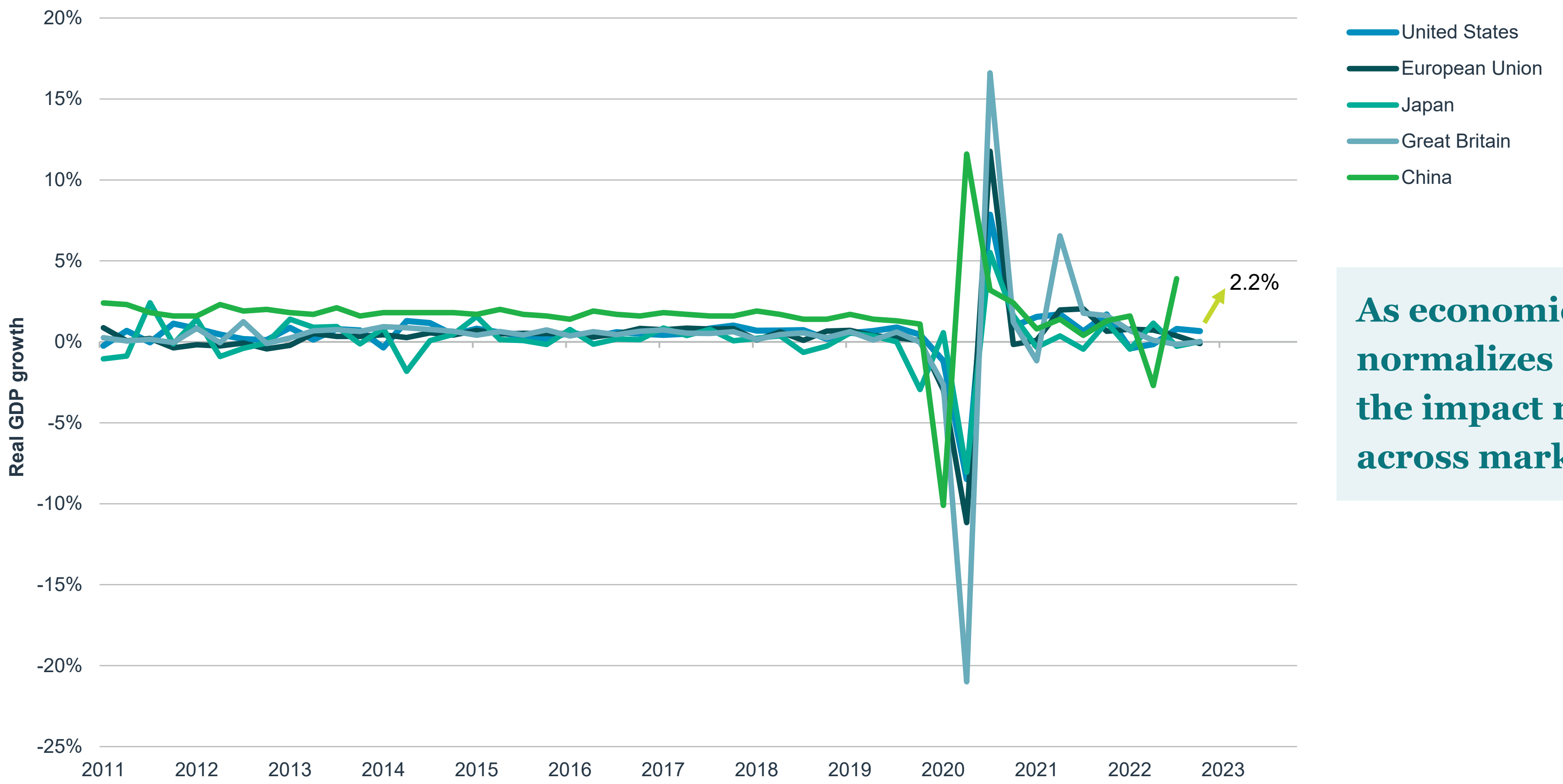


The U.S. consumer remains resilient, although sentiment is softening.

Data source: Bureau of Economic Analysis. Most recent data available. 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.

Global economic growth concerns linger

Persistent inflation, weak PMIs and geopolitical tension are driving uncertainty



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

Data source: Organisation for Economic Co-operation and Development, 01 Jan 2011 – 31 Dec 2022.

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Macro factors

The Nuveen Bear Market Tracker

As of 22 Mar 2023

🔴 **Further away** 🟡 **Picture is mixed** 🟢 **Close to a bottom**

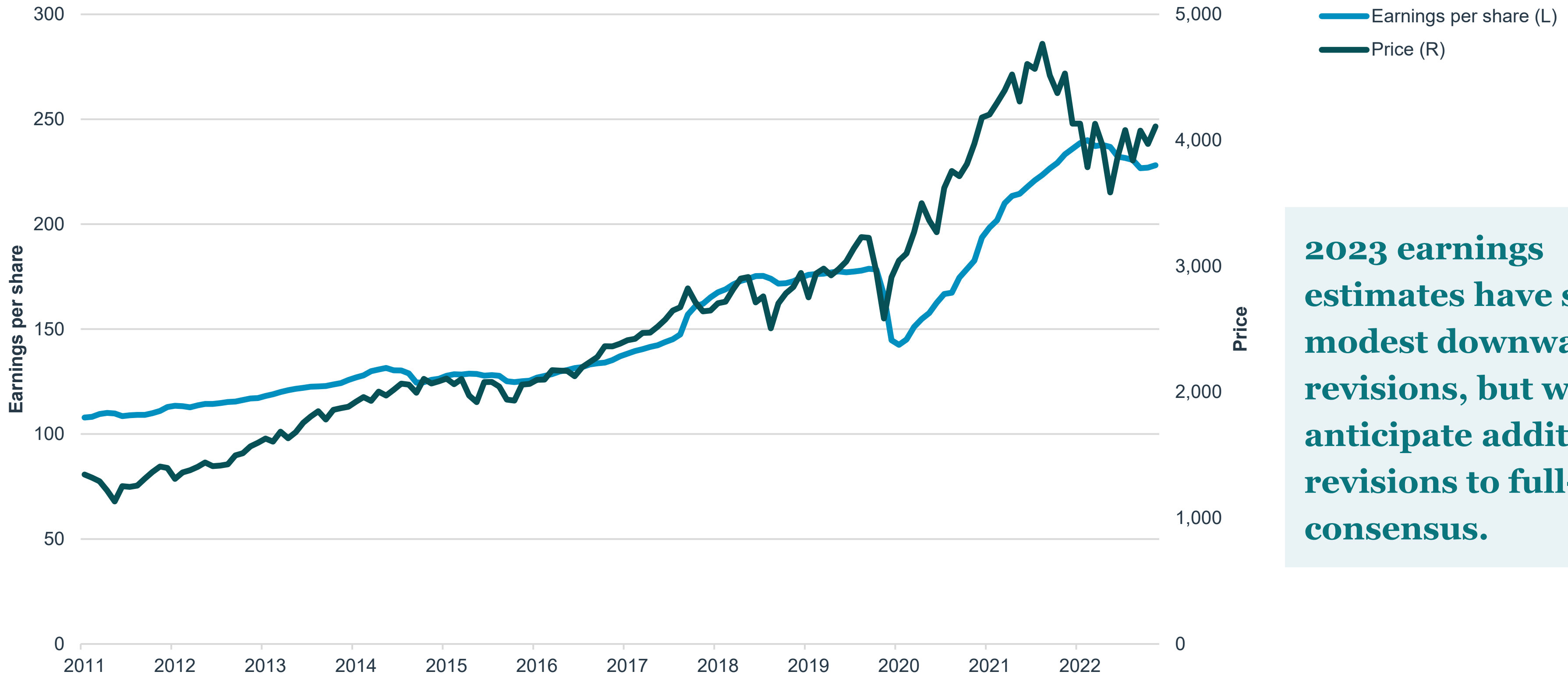
		Signaling a near-term bottom today?
Valuations	S&P 500 Index forward price/earnings ratio **-18.9%**	🟡
Earnings	S&P 500 Index forward earnings per share **+1.2%**	🟡
Monetary policy	Fed funds rate **+4.75%**	🟢
Manufacturing activity	ISM new orders index: **-13.7**	🔴
Market breadth	% of S&P 500 above 100 wk moving avg: **-54%**	🟡
Bond spreads (widening)	Bloomberg U.S. high yield spread (bps) **+218**	🔴

Data source: Bloomberg L.P., 22 Mar 2023. **Performance data shown represents past performance and 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.

U.S. equity markets rallied despite negative earnings growth

Valuations rebounded further in anticipation of policy changes

S&P 500 Index



2023 earnings estimates have seen modest downward revisions, but we anticipate additional revisions to full-year consensus.

Data source: FactSet, 31 May 2011 – 31 Mar 2023. **Performance data shown represents past performance and does not predict or guarantee future results.**

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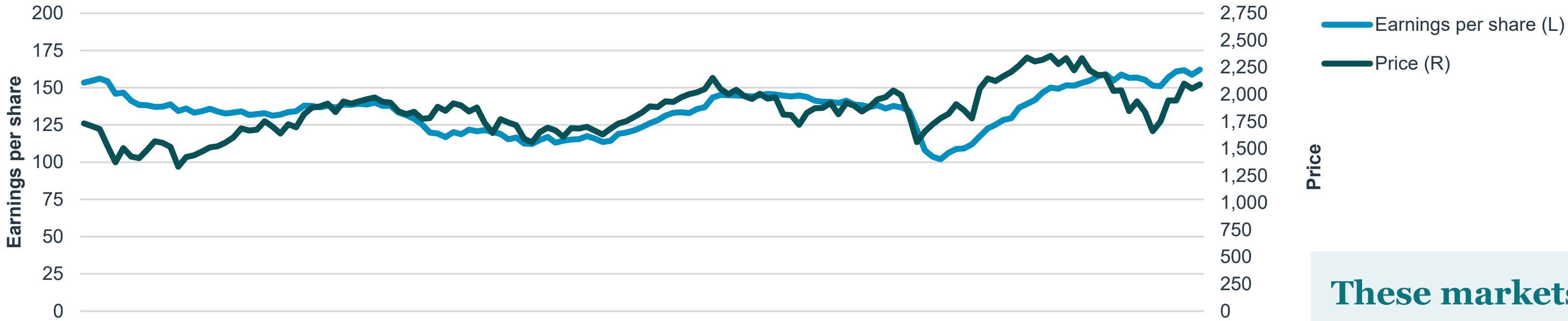
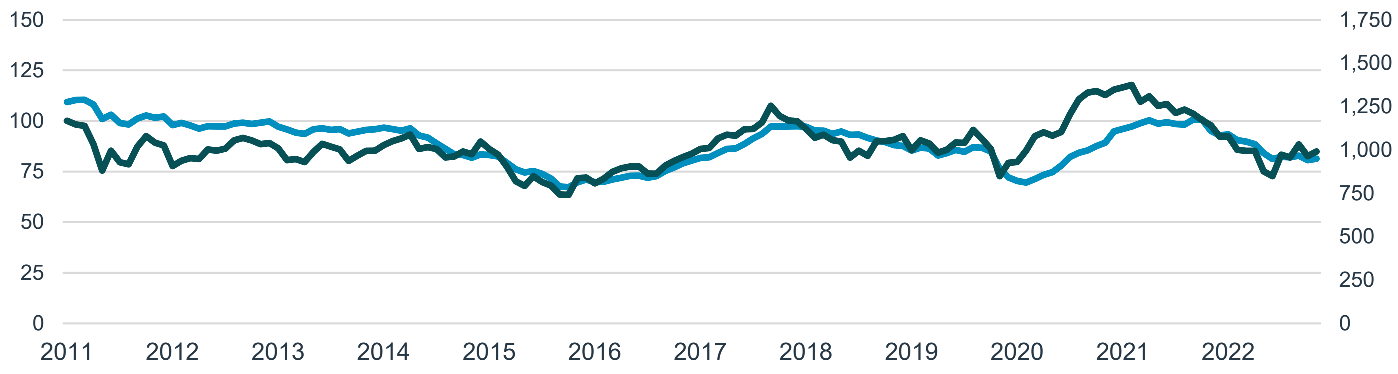
Long-term outlook remains positive, but near-term uncertainty remains

Economic uncertainty and U.S. dollar strength continue to be challenges for performance

MSCI EAFE



MSCI Emerging Markets



These markets are relatively cheaper and would benefit from a shift in U.S. dollar strength.

Data source: FactSet, 31 May 2011 – 31 Mar 2023. **Performance data shown represents past performance and does not predict or guarantee future results.**

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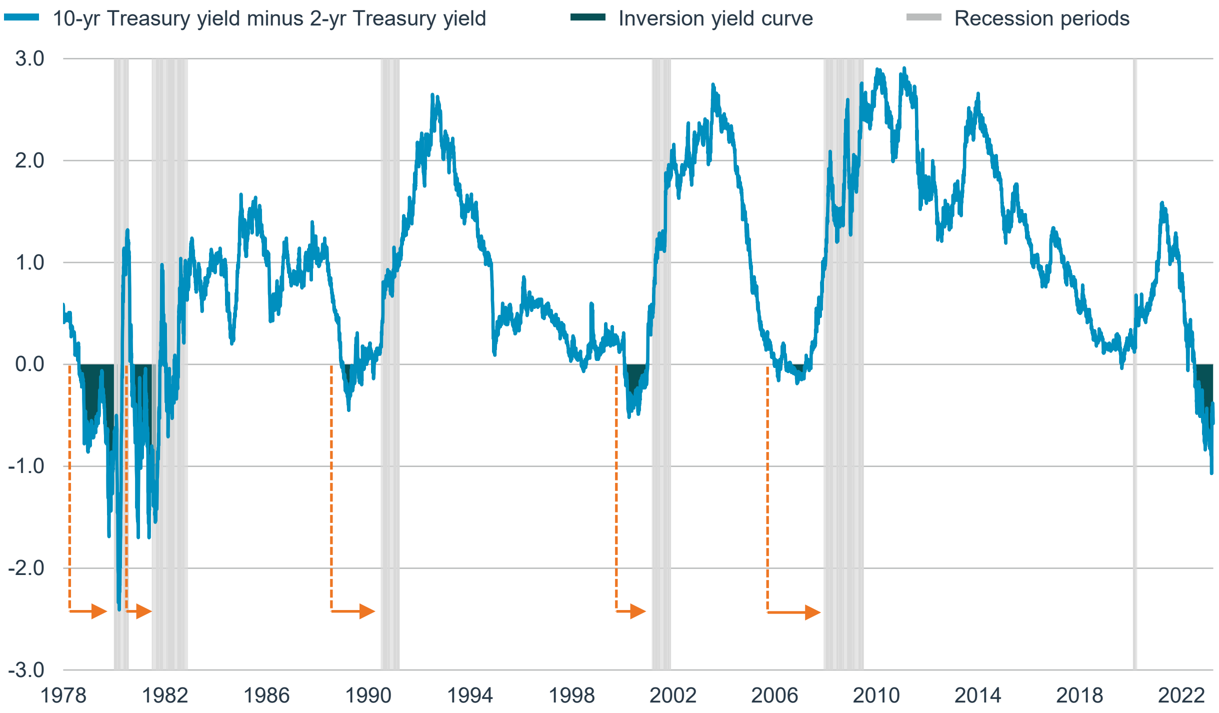
Yield curve inversion is not an absolute negative

After inversion, both U.S. and non-U.S. equity markets have enjoyed positive returns

10-year Treasury yield minus 2-year Treasury yield



Average annualized total return post-curve inversion (%)

Asset class	+12M	+24M	+36M
U.S. large caps	13.9	10.2	3.8
U.S. small caps	5.8	4.4	1.4
Non-U.S. developed	6.0	2.7	-3.8
Emerging markets	18.0	11.4	0.6

Data source: Bloomberg, L.P., 01 Jan 1978 – 31 Mar 2023. **Performance data shown represents past performance and does not predict or guarantee future results.** Data depicts 12-, 24- and 36-month performance of each index following the last seven inversions of the 10-year to 2-year Treasury spread (August 1978, September 1980, December 1988, June 1998, February 2000, January 2006 and August 2019). The 36-month column excludes the August 2019 inversion due to timing. **Representative indexes: U.S. large caps:** S&P 500 Index; **U.S. small caps:** Russell 2000 Index; **non-U.S. developed:** MSCI World ex-U.S. Index; **emerging markets:** MSCI Emerging Markets Index. Due to index inception dates, U.S. small caps reflect only the last six inversions, while emerging markets reflect only the last five inversions.

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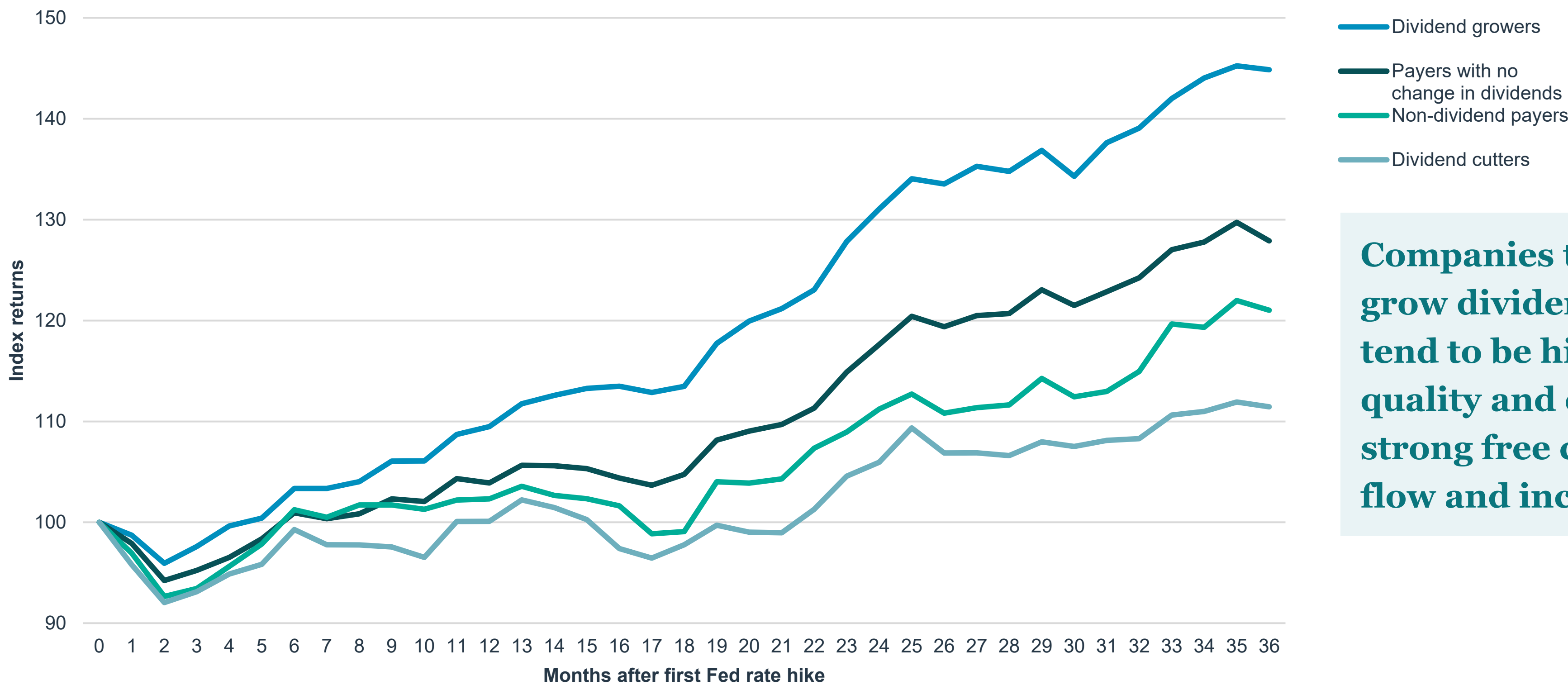
Equities have performed well in previous tightening cycles

Dividend growers have outperformed in past periods of rising rates

S&P 500 Index performance after the Federal Reserve increased rates

9 hikes since 1973 (nearest month end): 31/08/77, 30/09/80, 31/03/84, 31/08/87, 31/01/94, 31/03/97, 30/06/99, 30/06/04, 31/12/15



Companies that grow dividends tend to be high-quality and exhibit strong free cash flow and income.

Data source: Ned Davis Research Inc. and Refinitiv. Further distribution prohibited without prior permission. **Performance data shown represents past performance and does not predict or guarantee future results.**

Data based on the average performance after all rate hikes since 1973, which occurred on 31 Aug 1977, 30 Sep 1980, 31 Mar 1984, 31 Aug 1987, 31 Jan 1994, 31 Mar 1997, 30 Jun 1999, 30 Jun 2004 and 31 Dec 2015. For a description of how each stock is grouped by dividend policy, please refer to important disclosures.

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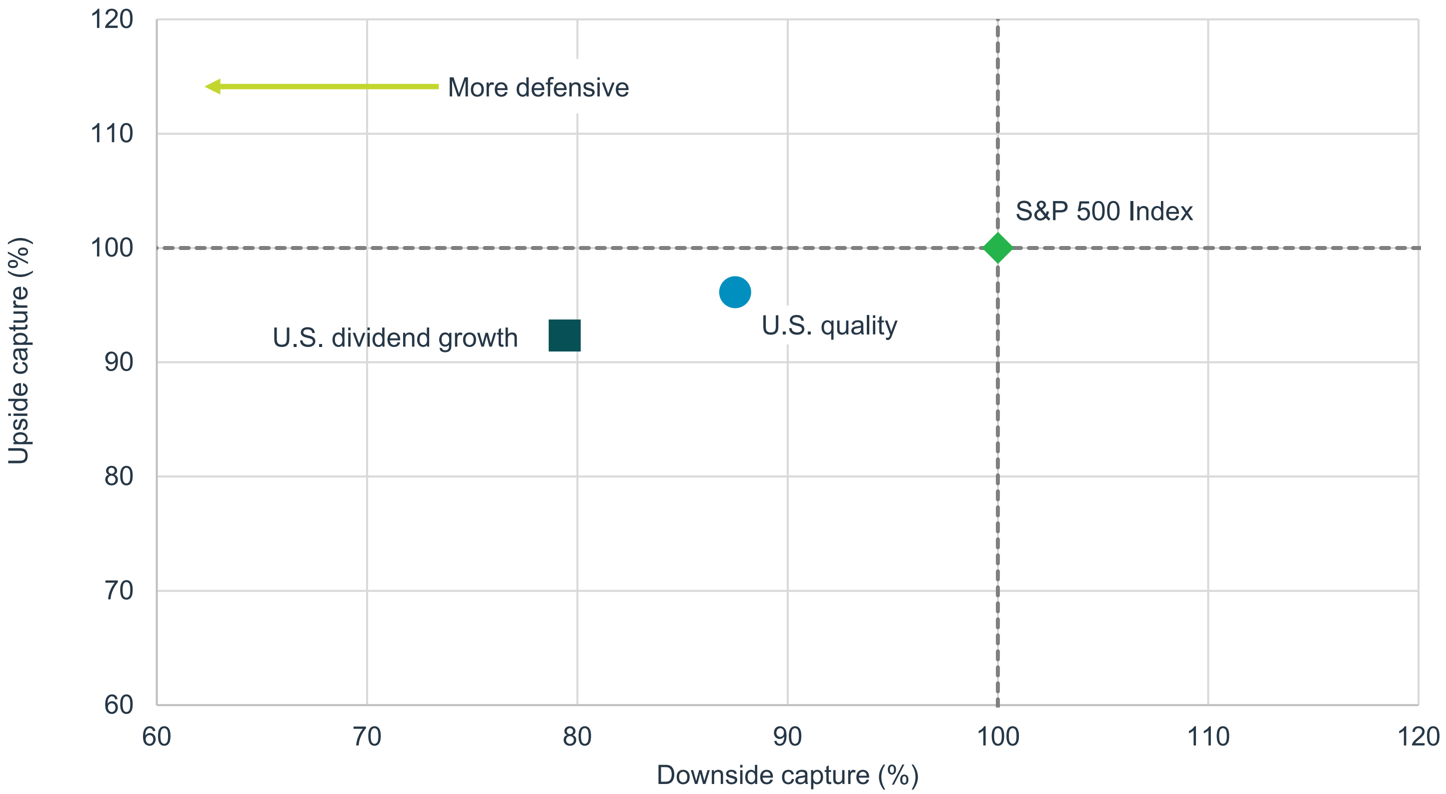
Quality and dividend growth offer better risk-adjusted return opportunities

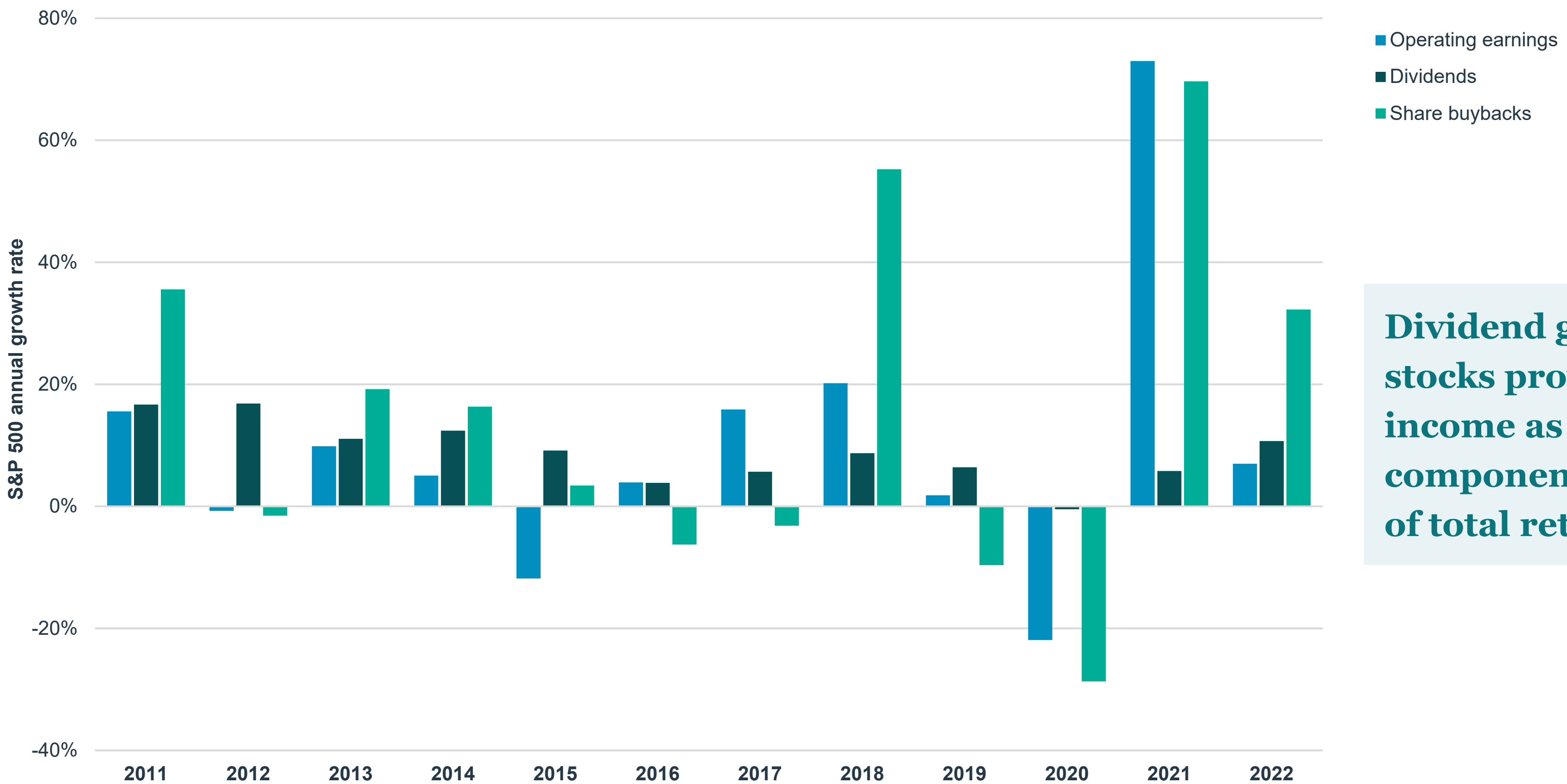


Free cash flow and dividend growth (rather than the absolute level of yield) are metrics that may indicate a higher quality company.

Data source: Morningstar, 01 Apr 2002 – 31 Mar 2023. **Performance data shown represents past performance and does not predict or guarantee future results.** Upside capture ratios are calculated by taking the monthly return during months when the S&P 500 had a positive return and dividing it by the benchmark return during that same month. Downside capture ratios use a similar methodology for months when the S&P 500 had a negative return.

Despite downward earnings revisions, dividends are still estimated to grow in 2023

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.

Data source: S&P Global, 01 Jan 2011 – 30 Jun 2022. Most recent data available. **Performance data shown represents past performance and does not predict or guarantee future results.**

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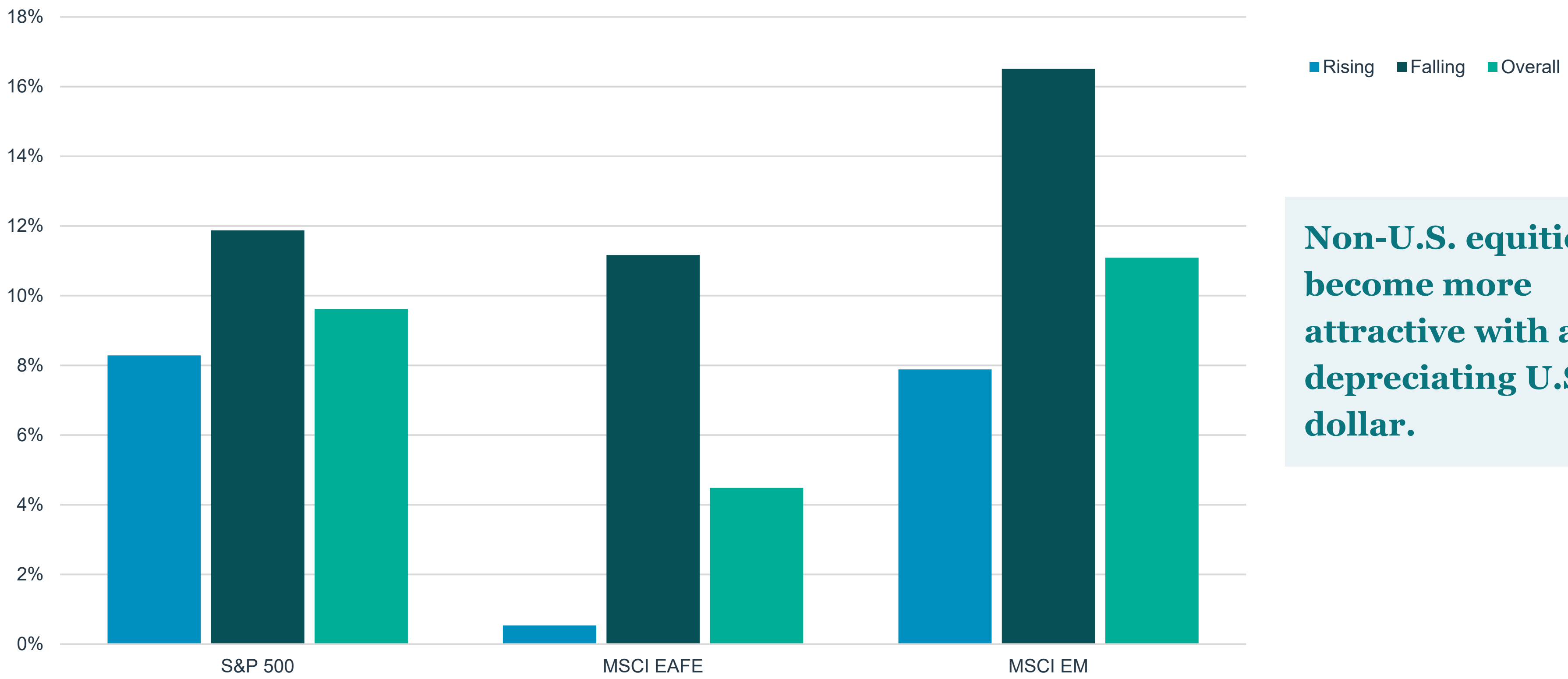
U.S. dollar strength challenges non-U.S. equities

The pace of Fed rate hikes initially attracted global capital

Average annual performance when the DXY is rising or falling



Non-U.S. equities become more attractive with a depreciating U.S. dollar.

Data source: Strategas Securities, 1988 – 2022. **Performance data shown represents past performance and does not predict or guarantee future results.**

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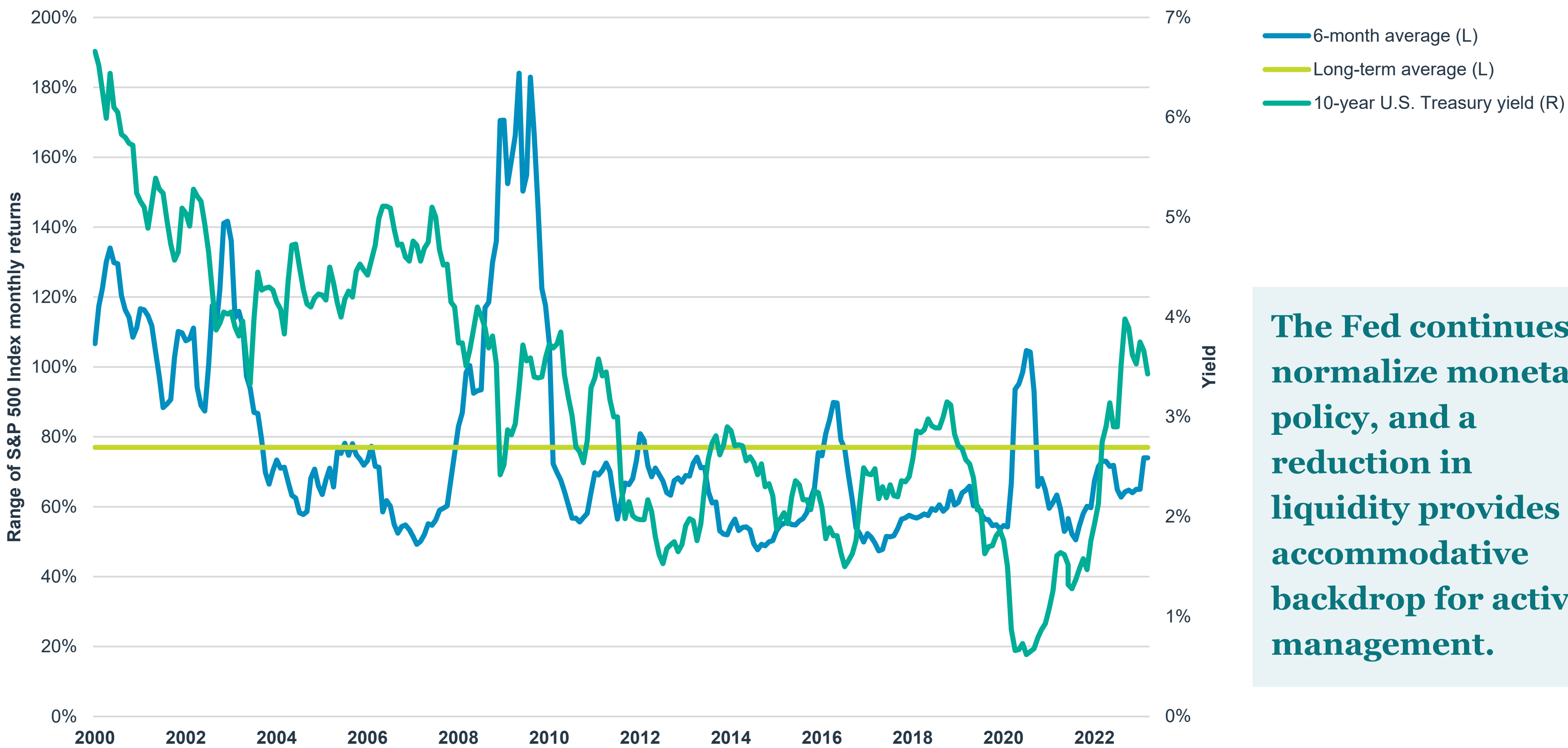
The market environment is proving to be more conducive to active management

The correlation between dispersion and interest rates supports active management



The Fed continues to normalize monetary policy, and a reduction in liquidity provides an accommodative backdrop for active management.

Data source: Strategas Securities, FactSet, Bloomberg, 01 Jan 2000 – 31 Mar 2023. **Performance data shown represents past performance and does not predict or guarantee future results.**

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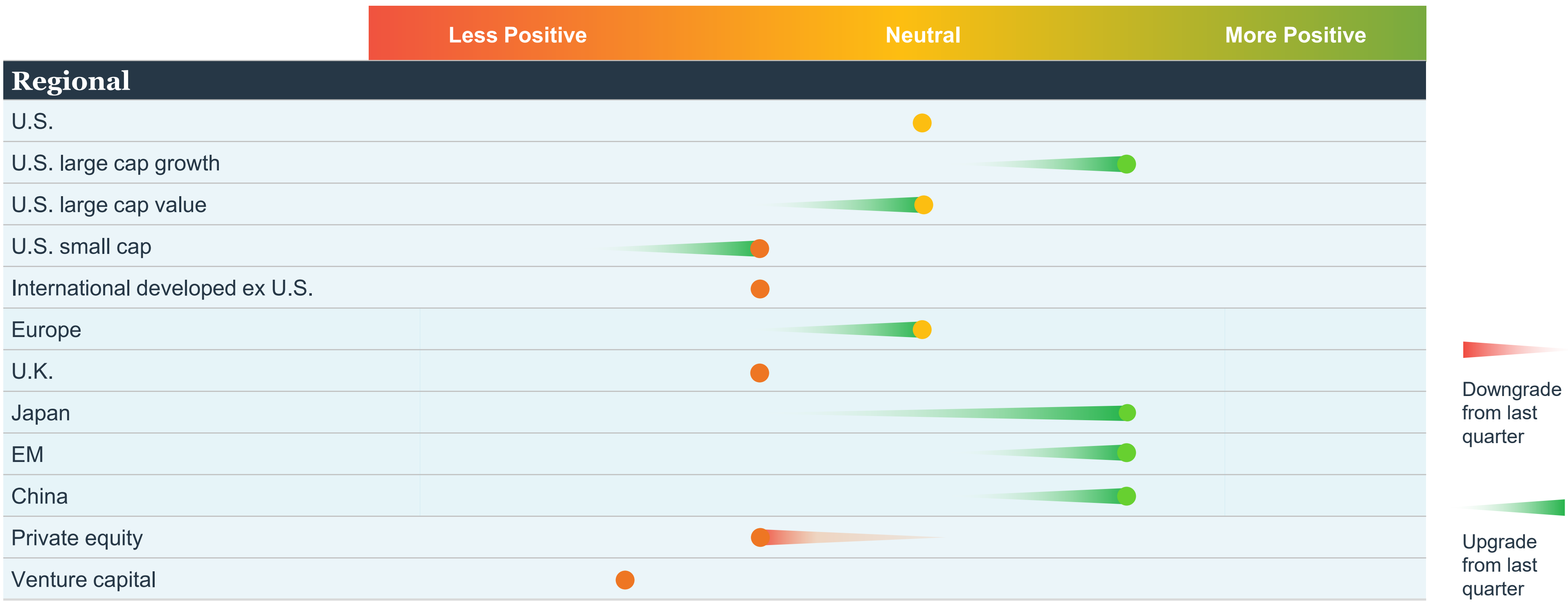
What are our highest conviction equity views?

Our views on the best relative equity opportunities as second quarter 2023 begins



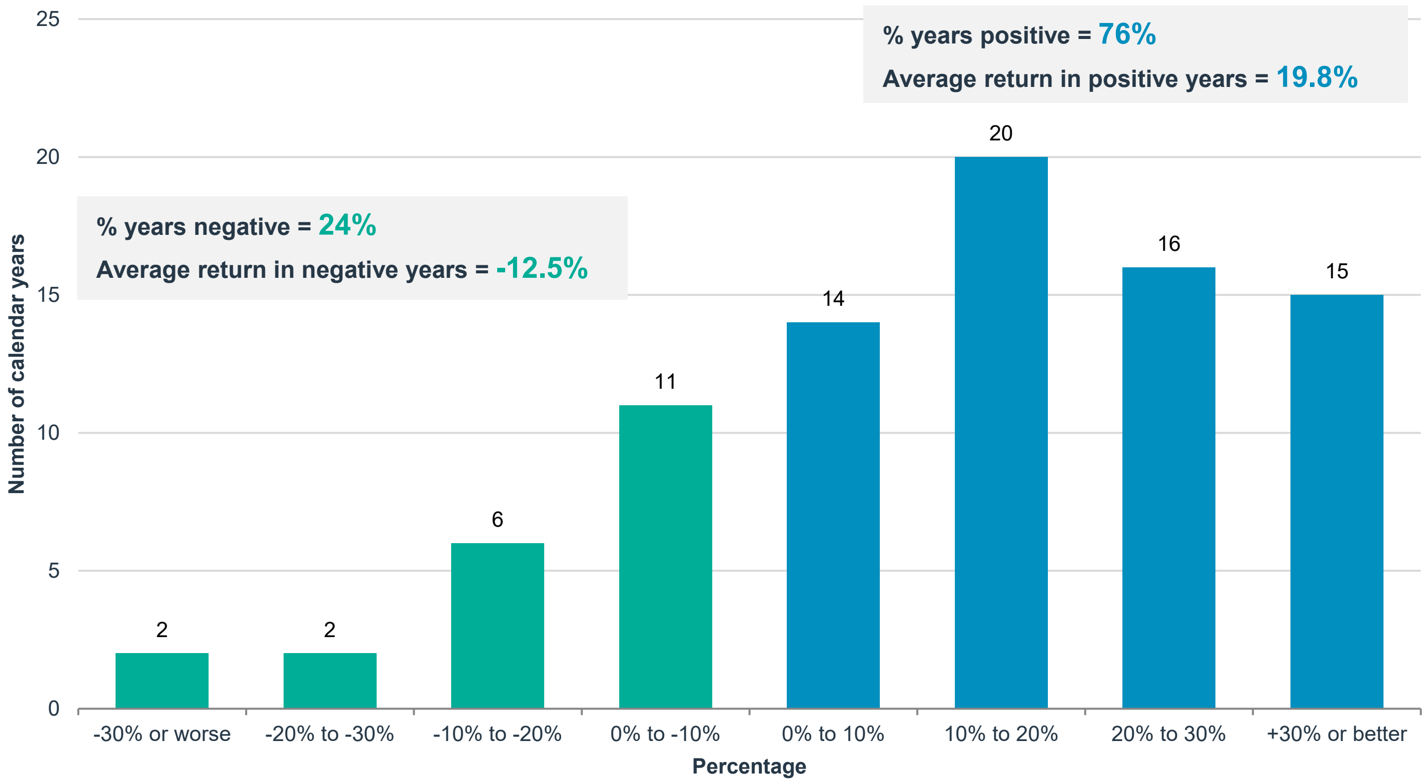
Data source: The views above are for informational purposes only and relate a comparison of the relative merits of each asset class based on the collective assessment of Nuveen's Global Investment Committee. These do not reflect the experience of any Nuveen product or service. Upgrades and downgrades reflect quarterly shifts in these views.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

Equity markets tend to go up more than down

Remaining invested is often the best way to realize long-term goals

U.S. equities total returns (S&P 500® Index), 1937 - 2022



Since 1937, U.S. stocks have been positive 76% of calendar years, with an average total market return of 19.8% in those years.

Data source: FactSet, 31 Dec 2022. **Performance data shown represents past performance and does not predict or guarantee future results.**

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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 margins.
- We prefer U.S. large cap, particularly dividend growers, along with public infrastructure and high-quality growth such as software/ semiconductors.
- Outside of the U.S., we see opportunities within emerging markets and remain cautious on developed non-U.S. equities, with minimal appetite for expanding allocations until we see economic and investment conditions improve in key markets.

Risks to consider

- Central banks around the world continue to respond to inflation with higher interest rates while contending with recessionary concerns, making the possibility of a monetary policy error a key risk for global equities.
- Margin pressure, combined with tight financial conditions, could lead to lower expectations for corporate earnings growth.
- Intermediate- and long-terms risks include a new Cold War between Russia/China and the West, leading to increased defense spending and deglobalization.

Important disclosures

Dividend policy description: The performance of each group is based on the equal-weighted geometric average of dividend-paying and non-dividend paying historical S&P 500® stocks, rebalanced monthly. Each stock's dividend policy is determined on a rolling 12-month basis. For example, a stock is classified as dividend-paying if it paid a cash dividend at any time during the previous 12 months. A stock is reclassified only if its dividend payments change. Dividend growers and initiators include stocks that raised their existing dividend or initiated a new dividend during the preceding 12 months. Dividend cutters or eliminators include stocks that lowered their existing dividend or stopped paying regular dividends during the preceding 12 months. The returns do not reflect the deduction of any fees, expenses or taxes that would reduce performance in an actual client portfolio. Returns for stocks that paid dividends assume reinvestment of all income. It is not possible to invest in an index. These groups have been determined by Ned Davis Research, Inc. Further distribution of this information is prohibited without prior permission.

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Important information on risk

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.

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.

Responsible investing incorporates Environmental Social Governance (ESG) factors that may affect exposure to issuers, sectors, industries, limiting the type and number of investment opportunities available, which could result in excluding investments that perform well.

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