

## CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

# Public or private – both deserve credit

### Bottom line up top:

**A soft-landing cocktail ‘straight-up’ or ‘with a twist?’** Last week’s economic data gave investors another reason to believe inflationary pressures may be subsiding. Both, the U.S. Producer Price Index and retail sales were softer than expected in December. This “bad news is good news” narrative for monetary policy implications, led Treasuries to rally on growing confidence that the U.S. Federal Reserve may slow the pace of rate hikes. However, equity markets took this cocktail of data points with a twist, finishing down for the week. Though one may have expected any sign of lower inflation would whet risk appetites, investors seemed more concerned about the potential headache of a recession.

**A slow leak, not the sinking of the Titanic.** Last week’s disappointing retail sales report may point to an economy that is taking on water. Although, to be fair, December has historically been the weakest average month for retail sales (Figure 1). While our base case still calls for a mild recession this year, we aren’t heading for the lifeboats just yet. We will continue to reassess with each new piece of available data.

**A fixation with fixed income.** We continue to favor fixed income markets over equities as we consider what 2023 may have in store for risk assets. With the bulk of rate hikes almost certainly behind us, we believe areas within both public and private credit markets are poised to provide attractive total returns.



**Saira Malik, CFA**  
*Chief Investment Officer*

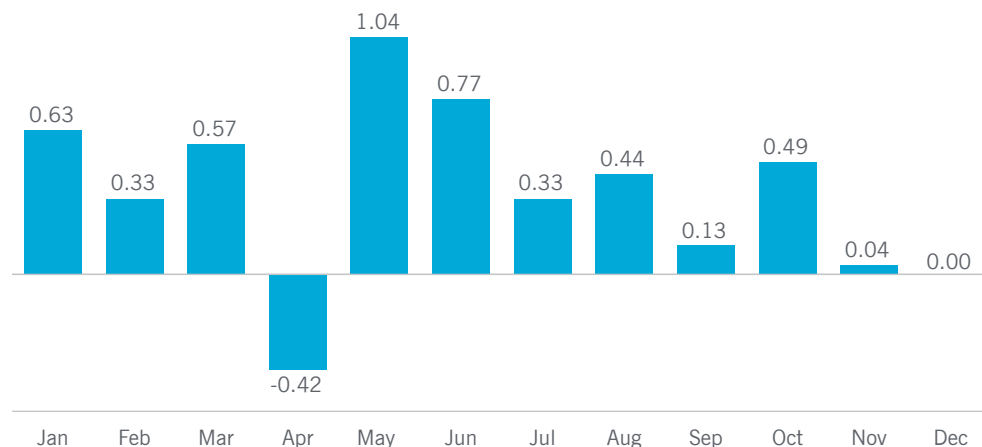
*On behalf of Nuveen’s Global  
Investment Committee*

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.

***Our base case calls for a mild recession... We aren't headed for the life-boats yet.***

**FIGURE 1: RETAIL SALES TEND TO BE WEAK IN DECEMBER**

Average retail sales (%)



Source: Bloomberg, L.P. 31 1999 to 31 2022. Average retail sales is represented by the Adjusted Retail & Food Services Sales SA Total Monthly % Change Index.

## Portfolio considerations:

Prior to 2022, investors were forced to chase yields in private fixed income as yields in public fixed income remained stubbornly low. The sharp rise in interest rates in 2022, however, now leads us to suggest a more blended approach for yield seeking investors. Within a multi-asset credit portfolio, assessing the tradeoff between public and private fixed income warrants consideration of several factors, including diversification, volatility, liquidity and relative value.

Across plus sector fixed income, we prefer a higher quality approach as we face an uncertain economic backdrop. Attractive income generation sectors include high yield corporates (yielding north of 8%), broadly syndicated loans and CLOs. On the high yield front, issuers are entering a potential economic slowdown with solid fundamentals. On the other hand, loans and CLOs could benefit from the high short-term interest rates that should persist throughout 2023.

Within private credit, the illiquidity premium can be blended with public markets to offer a potentially attractive yield and volatility profile. We favor defensive sectors like health care, business services, and technology and software as we enter a potential recession. Additionally, thanks to limits on interest coverage ratios (which determines how well a company can service their debt), leverage is down meaningfully. This adds to our conviction that private credit should continue to be resilient as the economy weakens.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

**FIGURE 2: THE U.S. PRODUCER PRICE INDEX CONTRIBUTED TO A SOFTENING MARKET**

As of 31 Dec 2022	Yield-to-worst / cap rate	Spreads*	5-year Z-score
U.S. aggregate bonds	4.68	0.51	0.41
Investment grade corporates	5.45	1.42	0.40
CLO (AA)	6.58	2.62	1.40
Preferreds	7.54	2.80	1.31
Emerging markets debt (\$)	7.52	4.45	1.31
High yield corporates	8.97	4.70	0.55
Senior loans	10.76	6.52	1.26
Middle market loans	13.10	7.57	0.47
CLO (BB)	14.03	9.92	1.08
Municipal bonds (A)	3.92	0.55	1.33
Municipal bonds (BBB)	4.36	0.99	0.51
High yield municipals	5.83	2.52	0.54
Real estate	5.90	2.00	-1.38

Data sources: Bloomberg, L.P. and Thompson Reuters MMD. 31 Dec 2022. **Performance data shown represents past performance and does not predict or guarantee future results.** Yield-to-worst is the lowest potential yield that can be received on a bond without the issuer actually defaulting. \*Municipal spreads are versus equivalent AAA municipal yields, senior loans are versus the three-year life discount margin, all others are option-adjusted spreads versus Treasuries. Z-score is the number of standard deviations between the current spread level and the average spread. Representative indexes and yield calculations: **U.S. aggregate bonds:** Bloomberg U.S. Aggregate Bond Index; **investment grade corporate:** Bloomberg USD Liquid Investment Grade Corp Total Return Index; **CLO (AA):** JPM CLO Total AA Yield Index; **preferreds:** ICE BofA Fixed Rate Preferred Securities Index; **emerging markets debt:** Bloomberg Emerging Markets Hard Currency Aggregate Index; **high yield corporate:** Bloomberg U.S. Corporate High Yield 2% Issuer Capped Index; **senior loans:** Credit Suisse Leveraged Loan Index; **middle market loans:** S&P/ LSTA Middle Market Index; **CLO (BB):** JPM CLO Total BB Yield Index; **municipal bond:** Thomas Reuters MMD Scale ; **high yield municipals:** Bloomberg High Yield Municipal Bond Index; **real estate:** Green Street Advisors, Nominal Cap Rate of Major Sectors (Real estate).

*The sharp rise in interest rates in 2022 suggests a blended approach across public and private fixed income.*

## 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](http://nuveen.com).**

### Endnotes

#### Sources

All market and economic data from Bloomberg, FactSet and Morningstar.

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and it should not be relied on as such. For term definitions and index descriptions, please access the glossary on [nuveen.com](http://nuveen.com). **Please note, it is not possible to invest directly in an index.**

### 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. 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. 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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