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CIO Weekly Commentary
14 March 2022

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Investing amid higher-for-longer oil prices

Bottom line up top:

What we mean by "higher for longer." Our base case doesn't define "higher" oil prices as the extreme levels that recently approached $130/barrel. Nor do we equate "longer" with indefinitely. On 10 March, the forward price curve for West Texas crude showed $113/barrel for April, dropping to $89 for December (Figure 1). But even such a sharp decline would see oil ending the year in the $80-$100 range — well above the $50-$70 that prevailed for much of the past five years, and still contributing to stronger overall inflation.

Boosting supply and tamping demand are far easier said than done. Oil and other commodity prices had been trending steadily higher well before Russia's attack on Ukraine, driven by already-tight supplies and roaring demand, along with geopolitical jitters leading up to the invasion. Oil producers have been quite disciplined in limiting output, and even if they wanted to ramp up production, it would take too long to help alleviate shortfalls. Meanwhile, even with dramatically higher prices, demand shows no signs of abating — especially in the U.S. and other developed nations where energy costs claim a relatively small share of wallet (Figure 2).

The spike in oil prices doesn't signal an imminent recession. Soaring energy costs often precede economic downturns, but it's not a cause-and-effect relationship. That said, the continuing run-up in oil and other commodity prices has important portfolio construction implications. We see opportunities among U.S. energy companies, commodity-exporting countries and regions, and asset classes that typically perform well in inflationary environments, including various commodity sectors and income-producing real assets.

Saira Malik, CFA
Chief Investment Officer

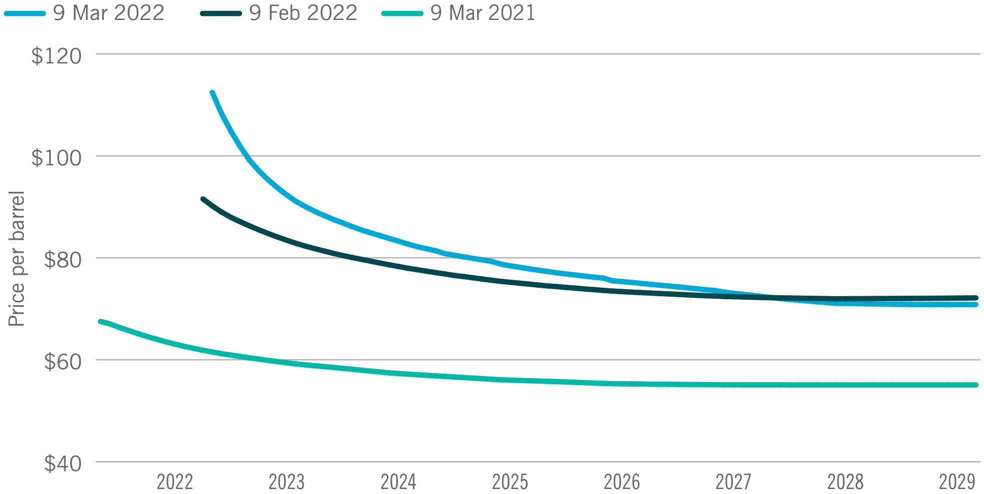
On behalf of Nuveen's Global Investment Committee

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.

> ***Soaring energy costs often precede economic downturns, but it's not a cause-and-effect relationship.***

FIGURE 1: OIL PRICES SHOULD EASE IN 2022 BUT REMAIN ABOVE PRE-INVASION LEVELS

WTI crude oil price ($ per barrel), futures curve



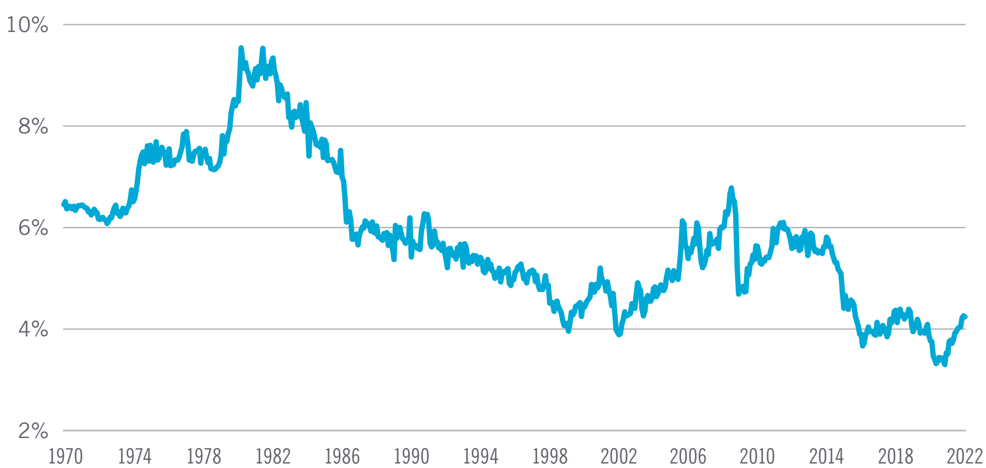
Data source: NYMEX, Bloomberg, L.P., 10 Mar 2022. **Past performance is no guarantee of future returns.**

What does this mean for portfolios?

U.S. energy companies should continue to exhibit momentum. We still favor U.S. companies with pricing power, the most obvious being energy companies that benefit from higher oil and gas prices.

FIGURE 2: ENERGY REMAINS A SMALL COMPONENT OF U.S. PERSONAL SPENDING

Energy goods and services spending as a % of consumption



Data source: Bureau of Economic Analysis, Bloomberg, L.P., December 1969 to January 2022. U.S. PCE Energy Goods & Services Spending as a percentage of PCE Current Dollars SAAR.

While rising energy costs may put a dent in discretionary spending, they're not likely to derail it altogether. Given the resilience of the U.S. consumer, we think consumer discretionary companies that are less tied to energy, such as brand and market share leaders in athleisure, warrant a closer look. We also continue to eye value opportunities in software names that have borne the brunt of higher interest rates this year.

Country and region selection should play a greater role. The likelihood of performance dispersion across countries and regions has perhaps never been higher. Investors who can find opportunities among commodity exporters in both developed and emerging markets should come out ahead. Potential beneficiaries of higher commodity prices include the U.K. and Canada in developed markets, and Mexico and Brazil in emerging markets.

Diversify your inflation protection. Supply-constrained commodities are so far holding their gains in energy, metals and agricultural markets such as grains and oilseeds. We also think it's prudent to diversify traditional inflation hedges with real estate and infrastructure projects that may be less prone to price swings and better able to generate income that can keep pace with inflation.

Consider diversifying traditional inflation hedges with real estate and infrastructure projects that are less prone to price swings.

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.

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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.

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