

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

From pain to gain: midyear outlook preview

Bottom line up top:

What will the world look like going forward? And how should we approach the markets? Those were the key questions Nuveen's Global Investment Committee debated at our recent conference in London. Later this week, we'll be sharing our collective answers in the form of our midyear 2022 outlook. In the meantime, we offer this preview of our key economic, market and portfolio construction themes.

From pain to gain. There's no way around it: The first half of the year was painful. Nearly all asset classes suffered losses, and there were few places to hide. The bad news is the headwinds that drove markets lower are still in place: unusually high levels of inflation, slowing economic growth, rising interest rates, Fed policy uncertainty and fallout from Russia's war on Ukraine. The good news is we see some potentially better times ahead, including more moderate inflation and (perhaps) less aggressive pace of monetary tightening. Overall, conditions will remain unsettled, but we're cautiously optimistic that investors will begin to experience less pain and more gain.

Slower growth? Yes. Deep recession? No. As the effects of pandemic-era stimulus fade, the global economy is gradually returning to pre-Covid norms. But the varying pace at which different sectors and regions are making progress is contributing to uncertainty and market volatility. Looking ahead, we expect a significant easing in inflation over the next 18 months amid continued central bank tightening and slowing growth. The runway for a soft economic landing has narrowed, and a mild recession isn't out of the question. One bright spot that should grow in importance: Consumer spending remains strong, and thanks to low unemployment and high job security, is more than keeping pace with inflation (Figure 1).



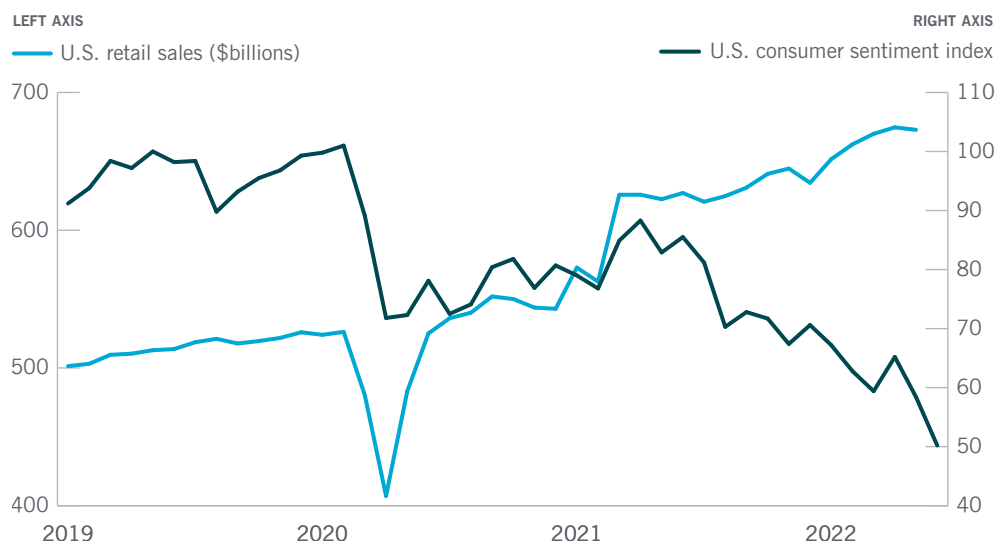
Saira Malik, CFA

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.

FIGURE 1: SPENDING LEVELS REMAIN HIGH DESPITE SOUR SENTIMENT



Data source: Bloomberg, L.P., U.S. Commerce Department (retail sales) and University of Michigan Consumer Sentiment Index, 31 Jan 2019 to 31 May 2022.

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Portfolio considerations

Our full outlook will include detailed cross-asset-class views and our best ideas across public and private assets. For now, we present these four portfolio construction themes based on the conclusions from our London GIC meeting:

- **Fixed income credit sectors over equities.** Although equities offer better value than they did at the start of the year, we could see negative earnings revisions in the coming quarters. We prefer to access risk-on exposure through public fixed income credit sectors, which we think represent more compelling near-term return prospects per unit of potential downside risk (see Figure 2).
- **Baby steps back to duration.** With recession odds on the rise and bond markets already pricing in most of the pain expected from Fed rate hikes, we firmly believe that investors who have shortened duration should consider inching their portfolios back to neutral over the next quarter, particularly as recession risk increases.
- **Real assets vis-à-vis inflation.** Infrastructure, farmland and commercial real estate are among the real asset categories that may provide ways to combat high inflation — or benefit from it.
- **Publics poised to lead.** While there's no denying the importance and value of maintaining a strategic allocation to private assets, beaten-down public markets currently offer extremely compelling upside potential in the near term.

FIGURE 2: COMPELLING OPPORTUNITIES IN FIXED INCOME CREDIT SECTORS

As of 31 Dec 2021	Yield to worst / cap rate	Spreads*	5-year Z-score	As of 21 Jun 2022	Yield to worst / cap rate	Spreads*	5-year Z-score
U.S. agg bond	1.75	0.36	-0.70	U.S. agg bond	3.98	0.54	0.81
IG corp	2.52	1.00	-0.79	IG corp	5.00	1.56	1.05
Preferreds	3.15	1.61	0.04	Preferreds	5.68	2.43	0.91
EMD (\$)	4.31	3.20	0.11	EMD (\$)	7.10	3.73	0.65
BB HY	3.30	1.94	-0.77	BB HY	7.00	3.45	1.00
HY corp	4.22	2.84	-0.98	HY corp	8.51	4.96	0.95
Senior loans	5.26	4.39	-0.36	Senior loans	8.54	5.63	0.76
Middle mkt loans	6.42	6.27	-0.28	Middle mkt loans	8.17	6.77	0.05
A muni	1.61	0.31	-1.39	A muni	3.24	0.56	2.01
BBB muni	1.93	0.63	-0.97	BBB muni	3.58	0.90	0.19
HY muni	3.11	1.76	-1.08	HY muni	4.88	2.14	-0.32
Real estate	4.83	3.20	-0.21	Real estate	5.03	3.55	-0.27

Spreads tighter than historic average

Spreads wider than historic average

Data source: Bloomberg, L.P. and Thompson Reuters MMD as of 21 June 2022. Senior loans, middle market loans and municipals data as of 31 May 2022. **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. **Past performance does not predict or guarantee future results. 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; preferreds: ICE BofA Fixed Rate Preferred Securities Index; emerging markets debt: Bloomberg Emerging Markets Hard Currency Aggregate Index; high yield: 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; municipal bonds: Thomas Reuters MMD Scale (A and BBB Municipal); high yield municipals: Bloomberg Barclays High Yield Municipal Index; real estate: Green street advisors, Nominal Cap Rate of Major Sectors (Real estate).

Overweighting municipal bonds and corporate high yield are the GIC's two highest conviction views.

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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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. 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.

Nuveen provides investment advisory services through its investment specialists.

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