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A TIAA Company

CIO Weekly Commentary
27 February 2023

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Are we there yet?

Bottom line up top:

Stop us if you've heard this one before. Markets are navigating pricing pressures that ultimately may prove transitory. No, it is not 2021. In 2023, transitory describes recent disinflationary trends that have led to increased volatility. Fueling investor concern is a sequence of economic data, starting with January's jolting payroll data that revealed persistent tightness in labor markets and elevated wage growth, followed by the Consumer and Producer Price Index reports that both showed higher-than-expected inflation. Combined with the upward surprise in January's PCE data, we contend the U.S. Federal Reserve has not yet arrived at a rate restrictive enough to reestablish price stability.

Factoring in higher rates. Volatility struck equity markets acutely over the past two weeks, given the rally of early 2023 fueled by investor optimism for a pause in rate hikes by mid-2023, at a lower terminal rate than central bankers had suggested. As a result, from a factor perspective, the biggest winners were those most sensitive to movement in risk-free rates including volatility, momentum, growth and sentiment.

As evidence mounts supporting a higher-for-longer rate cycle, performance among those factors has sharply reversed (Figure 1). We expect this vacillation in trading to continue and delaying the risk of a recession rather than eliminating it. Rather than attempt to time market gyrations, we suggest investors seek companies better suited for the uncertainty ahead.

Portfolio considerations:

Given the macro backdrop, we advocate for a defensive tilt that is balanced with selective beta exposure in order to protect against the downside risk of a recession, while minimizing underperformance should the global economy surprise to the upside.

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.

In 2023, transitory describes recent disinflationary trends that have led to increased volatility.

In the U.S., we prefer the qualities of defensive equities, including dividend growers and infrastructure. U.S. infrastructure tends to be less cyclical and remains an attractive inflation hedge while dividend growers have historically provided total and risk-adjusted returns over full market cycles, aiding with capital preservation during challenging market environments.

FIGURE 1: INTEREST RATE EXPECTATIONS INFLUENCE FACTOR PERFORMANCE

Style	Factor	Year-to-date (%)	Month-to-date (%)
Volatility	Beta	16.04	-5.31
Volatility	3M implied volatility	14.38	-0.35
Trade activity	U.S. trade activity	10.35	1.29
Sentiment	Sell side expected return	10.08	0.91
Growth	2Y forward EPS growth	9.48	-2.39
Dispersion	EPS estimate dispersion (2Y)	7.01	2.74
Growth	U.S. growth	6.79	-7.18
Variability	U.S. earnings variability	6.04	8.73
Value	Sales/price (blended forward 1Y)	3.49	13.50
Value	Valuation	1.14	7.00

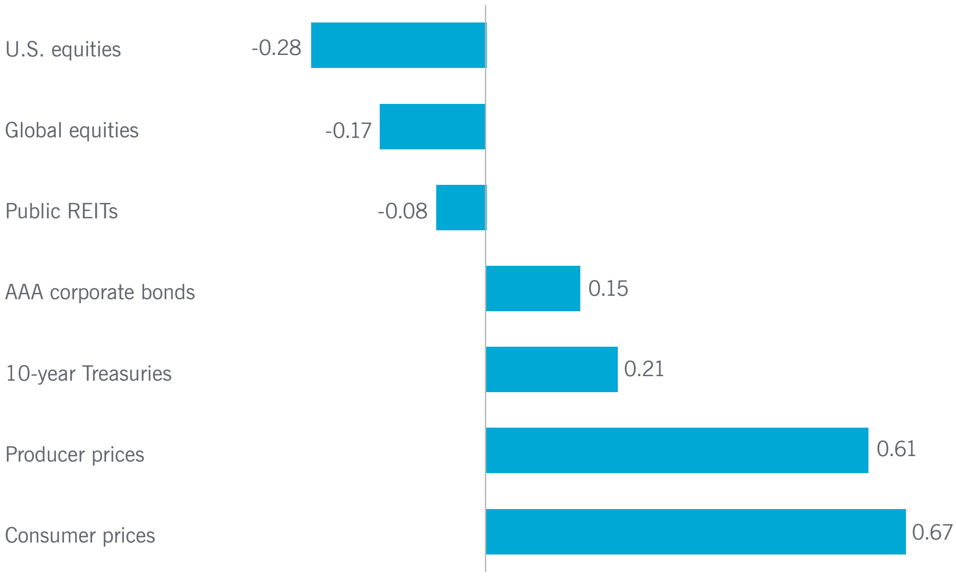
Data source: Bloomberg L.P., 22 Feb 2023. **Performance data shown represents past performance and does not predict or guarantee future results.** Reference universe is the Russell 3000 Index. Factor performance is measured as the relative performance of quintile 1 less quintile 5. The quintiles are formed by ranking the universe on each factor and splitting it into 5 groups of equal-weighted single equities. Quintile 1 has the highest raw score and quintile 5 the lowest. Inverted so that the positive returns indicate the performance of low raw scores, which we consider to indicate high quality, e.g. lower debt-to-assets is considered higher quality than high debt-to-assets.

Currently, we believe investors may benefit from seeking beta exposure outside the U.S., favoring emerging markets over international developed equities. Trading at approximately 11.5x their blended forward price-to-earnings ratio, emerging markets equities are attractive on a relative valuation basis and are currently forecasted to exceed their U.S. and non-U.S. developed counterparts in terms of earnings per share growth. Further supporting our case for increased emerging markets exposure is the ongoing reopening of the Chinese economy, as well as geopolitical risks that we think are less significant than investors believe.

Within alternatives, we continue to find farmland attractive. The asset class has historically provided diversification benefits and been a strong hedge against inflation (Figure 2), while providing income stability associated with longer-term leases.

FIGURE 2: FARMLAND MAY BE A FERTILE INFLATION HEDGE

Correlation to farmland



Data source: TIAA-CREF Center for Farmland Research, Bloomberg, L.P., 1970 to 2022 . **Performance data shown represents past performance and does not predict or guarantee future results.** Correlations are based on annual returns. **Representative indexes: U.S. equities:** S&P 500 Index, **global equities:** MSCI EAFE Index; **public REITs** FTSE NAREIT All Equity REITs Index; **AAA corporate bonds:** Bloomberg AAA Corporate Credit Index; **10-year U.S. Treasuries:** U.S. 10Y Government Note; **producer prices:** U.S. PPI Finished Goods YoY; **consumer prices:** U.S. CPI Urban Consumers YoY.

We continue to find farmland attractive. The asset class has provided diversification benefits and serve as a strong hedge against inflation.

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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Such information may include, among other things, projections, forecasts, estimates of market returns, and proposed or expected portfolio composition. Any changes to assumptions that may have been made in preparing this material could have a material impact on the information presented herein by way of example. **Performance data shown represents past performance does not predict or guarantee future results.** Investing involves risk; principal loss is possible.

All information has been obtained from sources believed to be reliable, but its accuracy is not guaranteed. There is no representation or warranty as to the current accuracy, reliability or completeness of, nor liability for, decisions based on such information and it should not be relied on as such. For term definitions and index descriptions, please access the glossary on nuveen.com. **Please note, it is not possible to invest directly in an index.**

Important information on risk

Investing involves risk; principal loss is possible. 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.

A focus on dividend-paying securities presents risks of greater exposure to certain economic sectors rather than the broad equity market, sector or concentration risk.

Concentration in infrastructure-related securities involves sector risk and concentration risk, particularly greater exposure to adverse economic, regulatory, political, legal, liquidity, and tax risks associated with MLPs and REITs.

As an asset class, agricultural investments are less developed, more illiquid, and less transparent compared to traditional asset classes. Agricultural investments will be subject to risks generally associated with the ownership of real estate-related assets, including changes in economic conditions, environmental risks, the cost of and ability to obtain insurance, and risks related to leasing of properties.

Nuveen provides investment advisory services through its investment specialists.

This information does not constitute investment research as defined under MiFID.

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