

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Why cash isn't king

Bottom line up top

You can't set your watch to markets. The modern one-year anniversary gift is a clock – a fitting metaphor for today's market conditions. It took roughly one trip around the sun for the lagged effects of tighter monetary policy to manifest in the form of banking sector instability, which has dramatically shifted the expected timing for rate cuts. Unfortunately for investors, the end of this tightening cycle cannot be determined by a timepiece. The proverbial bell will toll for rate hikes due to either continued financial sector turmoil or marked declines in wage inflation, manufacturing activity, earnings, or employment – circumstances which are also likely to ring in the start of a recession.

More is lost by indecision than no decision. Buying low and selling high is the goal of every investor – and periods of heightened uncertainty often lead to an increased number of investors attempting to avoid losses by hoarding cash, awaiting the “right” time to reinvest. In the current environment, those staying in cash or short-term government bonds and trying to guess when markets have troughed based on monetary policy expectations are likely to find themselves with more regret than gains. Notably, history shows a wide range of equity market returns as monetary policy loosens (Figure 1). Furthermore, an examination of the S&P 500's historical returns reveals that investors who missed the best 10 days over the past 30 years underperformed



Saira Malik, CFA
Chief Investment Officer

On behalf of Nuveen's Global Investment Committee

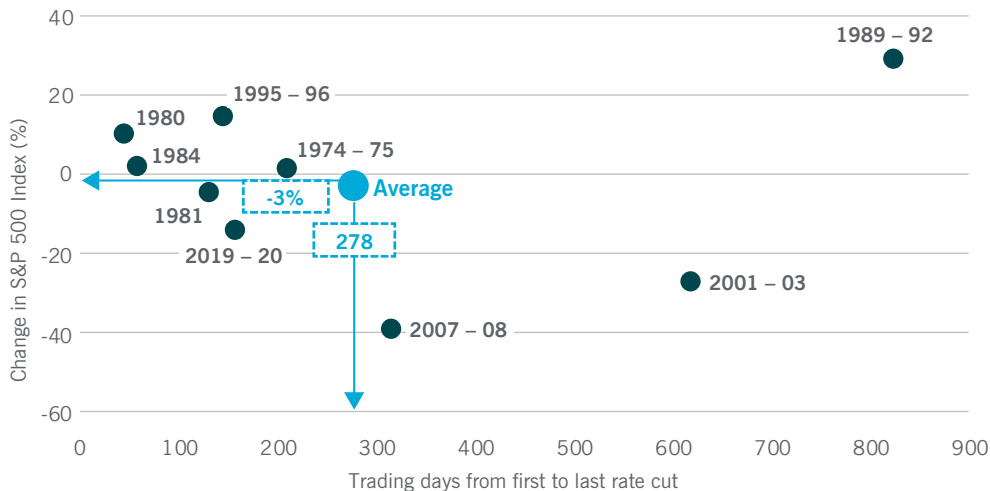
As Nuveen's CIO and leader of our Global Investment Committee, Saira drives market and investment insights, delivers client asset allocation views and brings together the firm's most senior investment leaders to deliver our best thinking and actionable investment ideas. In addition, she chairs Nuveen's Equities Investment Council and is a portfolio manager for several key investment strategies.

The end of a rate cutting cycle doesn't mean markets will jump back to risk-on mode.

the Index by 54%; and missing the best 20 days led to underperformance of 73%. As a result, we encourage investors to remain invested and highly selective, seeking quality stocks with a history of dividend growth, or, perhaps more prudently, adding to core-plus sectors of fixed income.

FIGURE 1: RATE CUTS DON'T GUARANTEE RISK-ON

Trading days versus stock performance from the first Fed cut to the last



Data source: Strategas. Data points reflect Federal Reserve rate-cutting cycles since 1974. Performance data shown represents past performance and does not predict or guarantee future results. Stocks represented by the S&P 500 Index.

Portfolio considerations

Amid higher interest rates, economic uncertainty and (most recently) banking sector turmoil, many investors have moved into higher-than-typical allocations to cash or short-term government bonds. As rates have rapidly shot up over the past year, and with cash yielding close to 5%, some have taken a little risk off the table, awaiting a potentially more attractive entry point. We think this approach is a mistake as market timing almost never works and investors run the risk of missing significant upside as markets can rebound quickly. We believe in remaining fully invested and allocating to asset classes that can perform well during volatility with potential upside capture if the economy performs better than expected. This leads us to favor dividend growth within equities and core-plus fixed income strategies.

Dividend growth offers the potential for downside protection, while also offering opportunities to participate in rallies. Our research shows the S&P 500 Dividend Aristocrats Index offered 79% of downside capture versus the

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

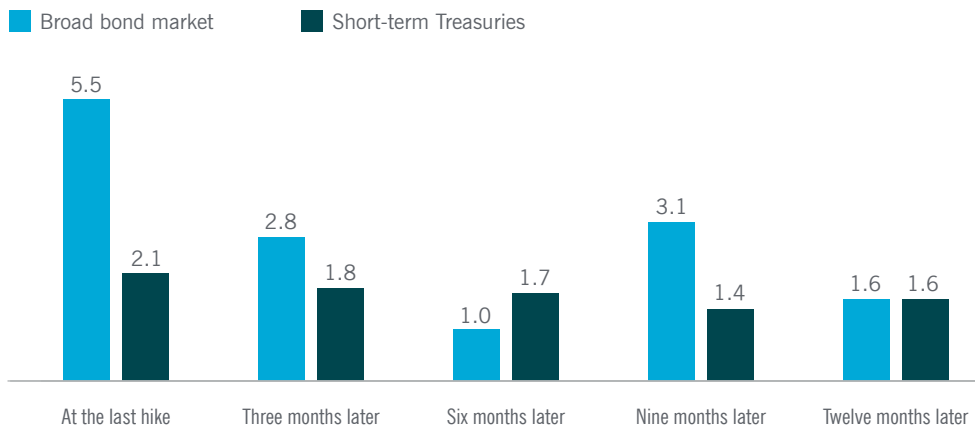
Overweighting cash may look tempting, but we think it is a mistake.

S&P 500 Index and 93% of the upside capture between November 2002 and February 2023. Companies with dividend paying stocks offer a combination of high relative yields, tend to be higher quality and have the ability to reinvest cash into their businesses. We think this sort of focus is crucial: Between 1930 to 2022, dividends made up 41% of the annualized total return of the S&P 500 Index.

Similarly, we believe core-plus fixed income strategies offer attractive yields while balancing duration and credit risk. We see value in taking on credit risk, specifically when it comes to higher quality allocations across high yield and preferreds. As we anticipate approaching the end of the U.S. rate hiking cycle and the Federal Reserve pausing, we analyzed the returns of the broad bond market versus short-term Treasuries during historic periods when the Fed paused (Figure 2). Historically, the broad bond market experienced a sharp relief rally immediately after the initial Fed pause and mostly outperformed over the next year. This lends further credence to our view that over-allocating to cash or short-term government bonds may be a mistake.

FIGURE 2: BONDS HAVE HISTORICALLY OUTPERFORMED CASH WHEN RATE HIKES STOP

Average rolling three-month returns (%) starting at the following timeframes



Data source: Bloomberg, L.P. 31 Dec 1989 to 28 Mar 2023. Data reflects average performance during all Federal Reserve rate-hiking cycles since 1990 (1995, 2000, 2006 and 2018). Performance data shown represents past performance and does not predict or guarantee future results. Representative indexes: Broad bond market: Bloomberg U.S. Aggregate Bond Index; Short-term Treasuries: Bloomberg U.S. Treasury 1-3 Year Index.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

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.

This material is not intended to be a recommendation or investment advice, does not constitute a solicitation to buy, sell or hold a security or an investment strategy, and is not provided in a fiduciary capacity. The information provided does not take into account the specific objectives or circumstances of any particular investor, or suggest any specific course of action. Investment decisions should be made based on an investor's objectives and circumstances and in consultation with his or her financial professionals.

The views and opinions expressed are for informational and educational purposes only as of the date of production/writing and may change without notice at any time based on numerous factors, such as market or other conditions, legal and regulatory developments, additional risks and uncertainties and may not come to pass. This material may contain “forward-looking” information that is not purely historical in nature.

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. **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

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. Debt or fixed income securities are subject to market risk, credit risk, interest rate risk, call risk, derivatives risk, dollar roll transaction risk and income risk. As interest rates rise, bond prices fall. Investing in preferred securities entails certain risks, including preferred security risk, interest rate risk, income risk, credit risk, non-U.S. securities risk and concentration/nondiversification risk, among others.

Nuveen provides investment advisory services through its investment specialists.

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

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE

297348 GWP-2818684PG-E0323P