nuveen
A TIAA Company

CIO Weekly Commentary
20 June 2023

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

The 60/40 portfolio: What's old is new again

Bottom line up top

Rest assured, for now. If U.S. Federal Reserve Chair Jerome Powell were a poet, he might defend the Fed's historic rate hikes to anxious markets by echoing Robert Frost: "But I have promises to keep, and miles to go before I sleep." Last week's Fed meeting confirmed that enough miles have been traveled to warrant a rest — even if it's a quick catnap instead of a deep night's sleep. Indeed, despite last week's pause, the Fed's new dot plot implies two more rate increases before year end.

Inflation is cooling overall, but there's still some heat at the core. Headline U.S. CPI showed signs of continued easing last week, increasing just +0.1% from April to May. It rose +4.0% year-over year in May, providing further evidence of a strengthening disinflation trend. Meanwhile, core CPI (excluding volatile food and energy costs) was higher than headline CPI in May, at +0.4% for the third month in a row and +5.3% compared to May 2022. Wholesale inflation has also decelerated, with the Producer Price Index falling -0.3% for the month, coming in below its pre-pandemic average. PPI has been cut in half relative to a year ago, to +1.1% in May from 2.3% in April.

When will inflation fall enough to justify rate cuts? Structural shifts are likely to keep the inflation rate above the Fed's 2% target in the near- to medium-term. That means more miles to go before monetary policy pivots from pausing to reversing course. But investors can take heart: Year-over-year comparisons (aka the "base effects") should put additional downward pressure on prices, and June inflation data due

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.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

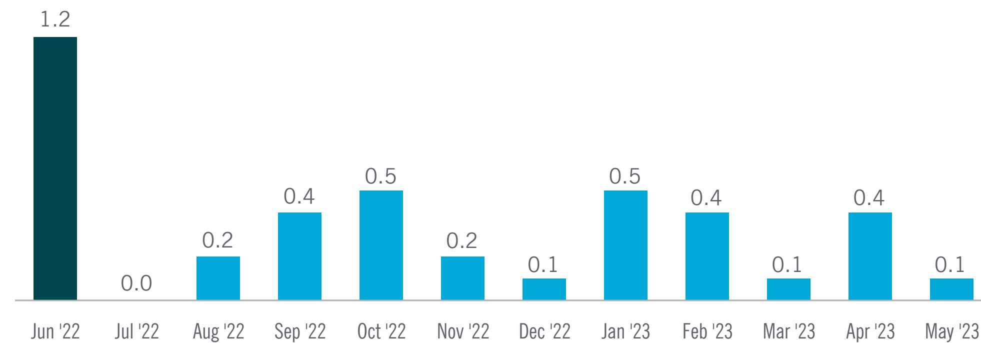
NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE

> ***Moderating inflation should eventually lead to a monetary policy pivot, but we don't see that happening soon.***

next month could be an important turning point (Figure 1). In particular, the rate of price increases in "sticky" components of inflation like shelter may be poised to slow substantially over the next 12 months. And used car deflation — that is, falling prices, not just slower increases — will likely start in June. All of this could affect the way investors might approach portfolio construction.

FIGURE 1: JUNE 2023 INFLATION DATA IS DUE FOR A BIG DROP

U.S. CPI, month-over-month (%)



Data source: Bloomberg L.P.

Portfolio considerations

The ongoing viability of the traditional 60/40 stock/bond portfolio has been debated before, but in 2022 the venerable allocation suffered its worst year since the global financial crisis amid an equity bear market and sharply higher interest rates. With economic and market conditions in flux, we don't expect a repeat of that poor performance in 2023. But 60/40 investors burned by last year's too-hot inflation and too-high rates may now be coming to the same conclusion we reached long before the Fed's aggressive tightening cycle began: Incorporating alternative investments and allocating across credit sectors may offer better downside protection, produce higher yields and create more diversified sources of risk than the typical 60/40 portfolio of yore.

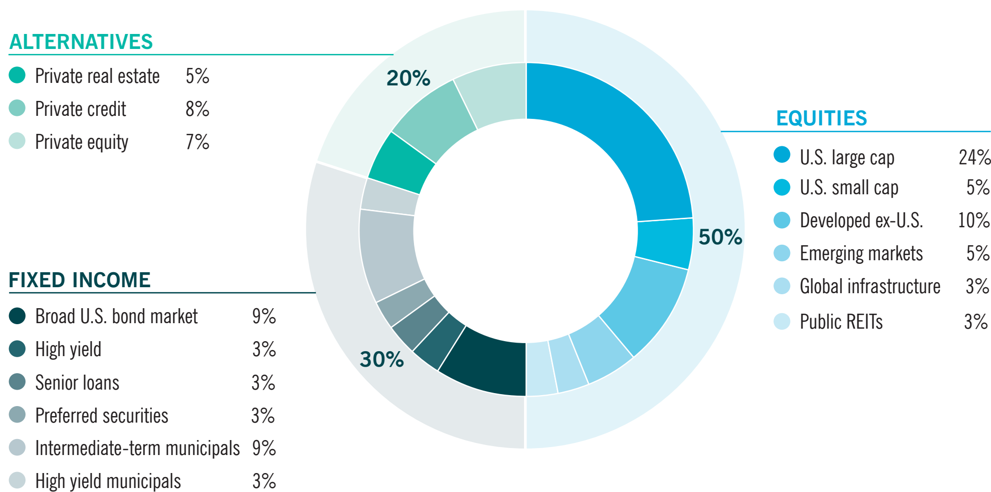
While each individual and institutional investor has unique investment goals and risk tolerances, some common themes may be worth exploring. The higher-for-longer inflation phenomenon could exert a significant drag on traditional stock and bond markets. In our view, this supports the argument for including assets like global infrastructure and private real estate in a diversified portfolio, as both asset classes have historically provided a buffer against inflation. Likewise, allocating to private credit

and private equity could potentially enhance a portfolio's overall risk/ return profile, given their relatively high historical yields and returns and relatively low correlations to public equities and fixed income.

To jumpstart discussions about allocating beyond a traditional 60/40 approach, we propose a hypothetical 50/30/20 portfolio (Figure 2) that invests 50% in equities, 30% in fixed income and 20% in alternatives to capitalize on their differentiated asset class advantages. Incorporating additional asset classes comes with additional asset class-specific risks (such as liquidity risk for many private investments), but we believe gaining exposure to more sources of risk and more potential sources of return would benefit most investors.

Broadening into alternatives and diversifying across credit sectors could potentially improve a portfolio's risk/ return profile.

FIGURE 2: BEYOND THE 60/40



This represents a hypothetical portfolio allocation across a broad selection of asset classes and does not reflect any specific portfolio or financial market benchmark. This is presented for illustrative purposes only and does not reflect any Nuveen product or service.

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. 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. Income from municipal bonds held by a portfolio could be declared taxable because of unfavorable changes in tax laws, adverse interpretations by the Internal Revenue Service or state tax authorities, or noncompliant conduct of a bond issuer. Income may be subject to the alternative minimum tax (AMT) and/or state and local taxes, based on the state of residence. 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. 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. 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. Because infrastructure portfolios concentrate their investments in infrastructure-related securities, portfolios have greater exposure to adverse economic, regulatory, political, legal, and other changes affecting the issuers of such securities. Infrastructure-related businesses are subject to a variety of factors that may adversely affect their business or operations, including high interest costs in connection with capital construction programs, costs associated with environmental and other regulations, the effects of economic slowdown and surplus capacity, increased competition from other providers of services, uncertainties concerning the availability of fuel at reasonable prices, the effects of energy conservation policies and other factors.

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

308787 GWP-2951594PG-E0623P