

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Peak inflation piques investor interest

Bottom line up top

Risk assets heat up as inflation cools down, but temperature checks are still in order. Equity and bond markets rallied last week as both consumer and producer price indexes for June came in softer than expected. Month-over-month and year-over-year increases fell to their lowest levels in two or three years, depending on the measurement (Figure 1). As investors grow more confident that peak inflation is definitively behind us, so do expectations that the U.S. Federal Reserve's current rate hiking cycle will finally be over — following one last 25 basis points (bps) increase at the Fed's July meeting. Last week the S&P 500 reached levels not seen in more than a year, and the U.S. Treasury yield curve steepened, but the market optimism that fueled this relief rally should be tempered by a degree of caution.

Running bulls could be tripped up by cracks in the economy and corporate earnings. Although easing inflation makes an economic soft landing still possible, such an outcome would be subject to fits and starts, as downside risks remain. Key inflation categories like shelter and wages remain uncomfortably high, for example, so if we see only one (or two) additional rate hikes, prudent investors may want to cast a skeptical eye on overly exuberant rallies. Additionally, in our view, the higher-for-longer interest rate environment has likely set the stage for a mild recession sometime in 2024 (our base case). Looking at S&P 500 corporate earnings as a gauge, analyst estimates continue to be revised lower for both the second quarter of 2023 and the full year.



Saira Malik, CFA
Chief Investment Officer

On behalf of Nuveen's Global Investment Committee

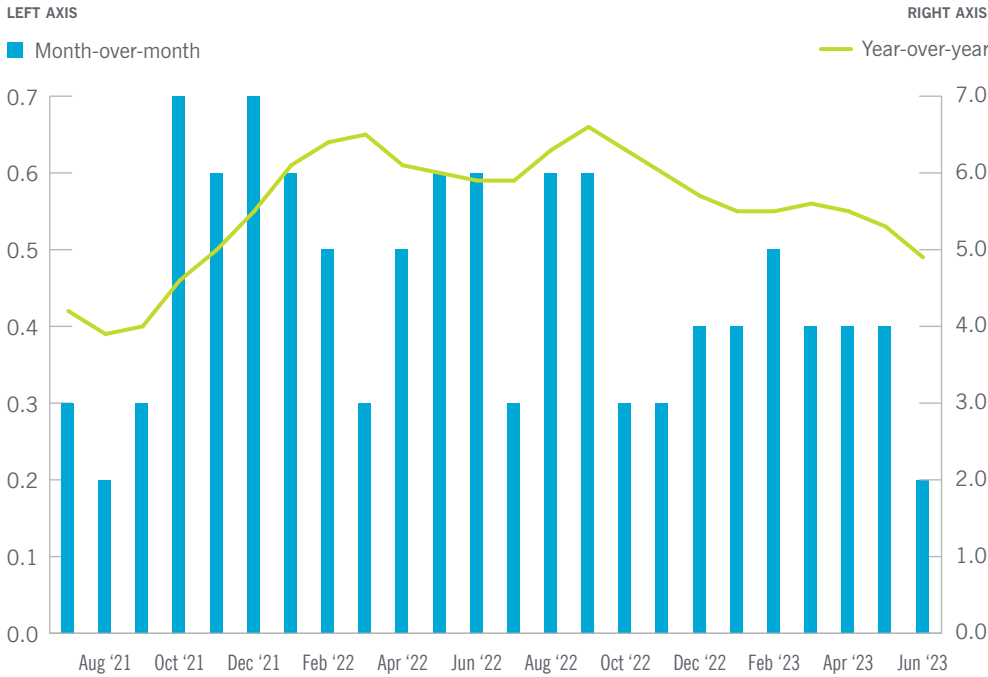
As Nuveen's CIO and leader of our Global Investment Committee, Saira drives market and investment insights, delivers client asset allocation views and brings together the firm's most senior investment leaders to deliver our best thinking and actionable investment ideas. In addition, she chairs Nuveen's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

“Cautious” doesn’t necessarily mean bearish. We continue to find compelling investment opportunities across various asset classes worthy of including in a diversified portfolio. Among these are municipal bonds, which currently offer attractive yields and total return potential, without undue risks.

We continue to find compelling investment opportunities across various asset classes worthy of including in a diversified portfolio.

FIGURE 1: CONSUMER INFLATION CONTINUES TO DECLINE

Core CPI, all items less food and energy (%)



Data sources: U.S. Bureau of Labor Statistics, FactSet. 30 Jun 2023. Note: All urban consumers, data seasonally adjusted.

Portfolio considerations

Across the municipal bond landscape, we continue to prefer pairing credit risk with duration risk. Municipal credit fundamentals remain strong, with historic levels of rainy day funds and unspent transfers from Covid relief bills. Many large issuers in the high yield muni market have adjusted key indentures to provide additional protection for investors. Refinancing debt allows an issuer to better align with revenues during a recession, although the timing of any economic downturn is increasingly being pushed further out amid relatively strong economic data and softer-than-expected inflation.

Reflecting their healthy credit profile, high yield municipals (represented by the Bloomberg High Yield Municipal Bond Total Return Index) have seen spreads tighten by 14 bps this year. The asset class is now yielding 5.77%, with a tax-equivalent yield of 9.75% for an individual in the top tax bracket — more than 100 bps above the payout on high yield corporates.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

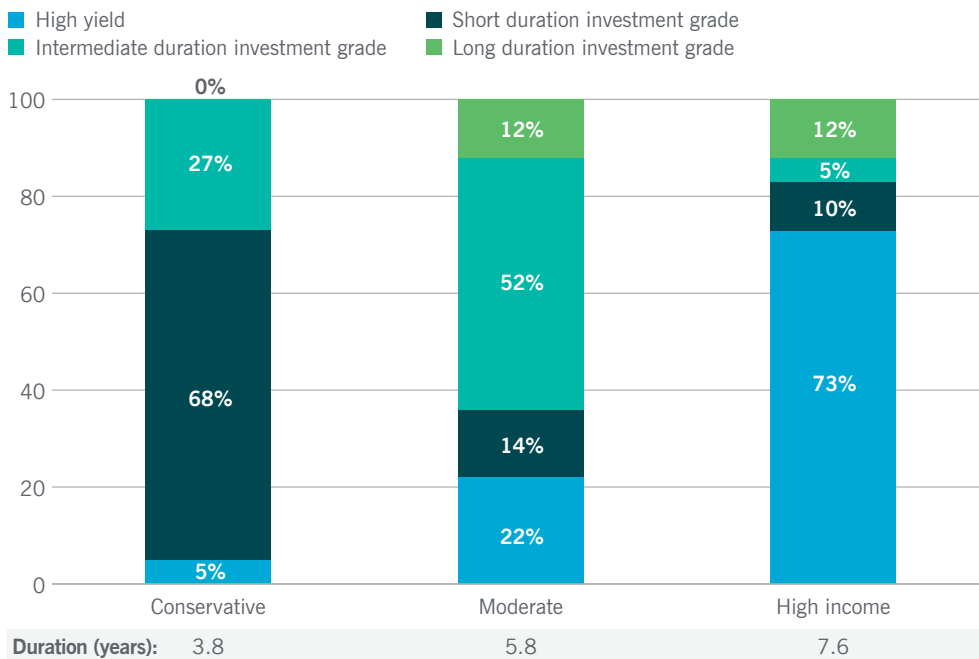
Investors who extend their duration via high yield municipals are offered a particularly attractive yield.

The U.S. Treasury yield curve remains deeply inverted, with the 2-year/10-year spread recently reaching levels not seen in 40+ years. Meanwhile, the municipal curve has experienced some inversion at the front end but is still upward sloping from the intermediate part of the curve and out. Given that relative steepness, combined with the longer duration of high yield munis versus their investment grade peers and our view that intermediate- to longer-term rates are likely to decline, investors who extend their duration via high yield municipals are offered a particularly attractive yield, with capital appreciation potential.

Of course, credit and duration exposure for any given investor depends on their risk tolerance and objectives. We have created hypothetical municipal portfolios for conservative, moderate and high-income investors (Figure 2). As shown, increasing high yield muni exposure as risk tolerance rises results in a longer-duration portfolio.

FIGURE 2: INCREASING HIGH YIELD MUNIS ADDS DURATION

Allocation across hypothetical municipal portfolios (%)



Data source: Nuveen. The portfolios above are hypothetical and for informational purposes only. They do not necessarily reflect the experience of any Nuveen product or service. Investors should consult with their financial professionals before making any investment decisions. Performance data shown represents past performance and does not predict or guarantee future results.

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. **Performance data shown represents past performance and 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, LLC provides investment 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

309433

GWP-3001158PG-E0723P