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CIO Weekly Commentary
20 February 2024

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

With inflation warm, consider infrastructure investments

Bottom line up top

Inflation may be cooling, but it is doing so slowly. The Fed has indicated that more time is needed before rate cuts begin, and recent inflation data are prompting investors to begin accepting that reality. The highlight last week was January's consumer price index data, which showed headline CPI increased 0.3% for the month, and is now at a year-over-year 3.1% level (slightly down from 3.4% in December). Excluding food and energy prices, core CPI accelerated 0.4% in January and now is up 3.9% from a year ago (unchanged from December). Shelter prices, which account for approximately one-third of the CPI weighting, accounted for much of the increase. This unexpected increase sparked a selloff in equity and fixed income markets, and sent future one-year inflation expectations to their highest level since the first quarter of 2023 (Figure 1). Friday brought more inflation news, with January's core producer price index rising a higher-than-expected 0.6% for a year-over-year rate of 2.6%.

A winter chill in spending has emerged. In other economic news, January retail sales slid by 0.8% as consumers have apparently closed their wallets after shopping freely during the holidays. A slowdown in spending could put downward pressure on inflation, but we haven't seen that materialize yet.

For now, the Fed isn't ready to spring forth. Despite modest improvements in the inflation backdrop in recent months, last week's data reinforce the notion that the Fed will need additional evidence before starting a rate-cutting cycle. While the current path shows that June could be the month where the Fed has a full year of inflation data showing a decrease towards its 2% target, a first cut may not happen until the second half of 2024.

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.

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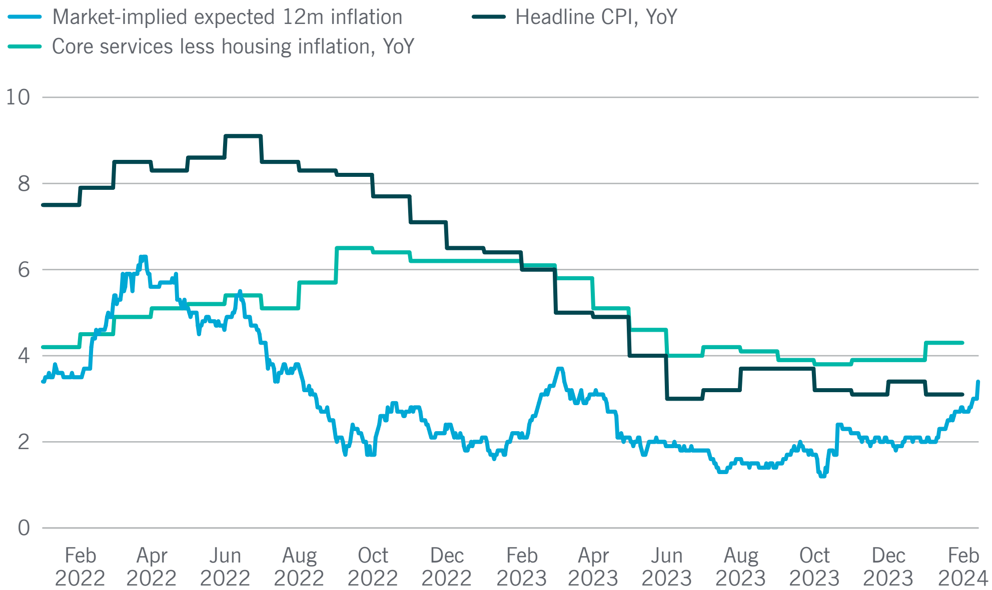
FIGURE 1: INFLATION TRENDS SUGGEST THE FED'S MISSION IS NOT YET COMPLETE



Data sources: Bloomberg L.P., Jan 2022 to Feb 2024. Market-implied inflation is a calculation of the "break-even" differences in yield between Treasury Inflation-Protected Securities (TIPS) and equivalent maturity Treasuries.

Still-warm inflation in the U.S. suggests that the Fed won't be cutting rates in the immediate future.

Portfolio considerations

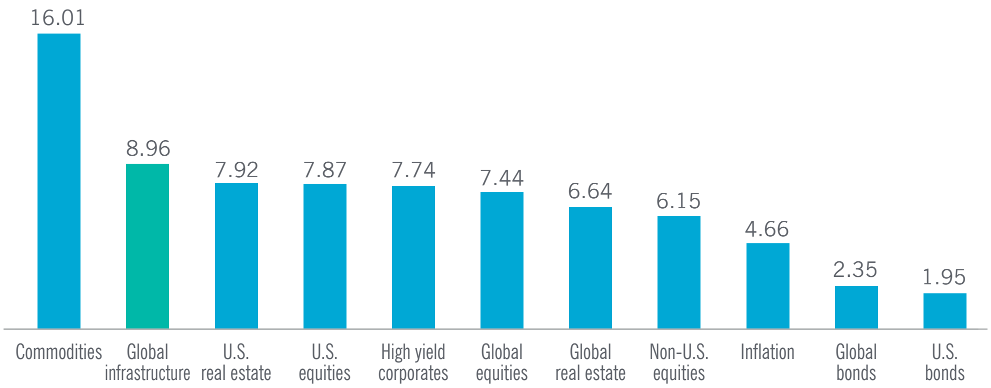
Last week's market pullback served as a reminder of just how fragile the current bull market has been since it has been built largely on overly dovish expectations for monetary policy and interest rates. Already-frothy valuations also helped fuel the setback, especially among mega-cap tech companies that have provided the lion's share of gains since early November.

Moreover, the decline in stock and bond prices highlights the importance of balancing risks across a diversified portfolio. In the current environment, we see compelling reasons to focus on more defensive areas of the market, including listed global infrastructure. This asset class has demonstrated a substantial track record as an inflation hedge (Figure 2), thanks in no small part to its long-term contractual cash flows. Infrastructure companies also tend to benefit from inelastic demand for their functions or services, as well as regulation that allows for almost-immediate inflation pass-throughs.

Within U.S. infrastructure, we prefer midstream pipelines, waste management and utilities. As the world relies more on U.S. energy resources, midstream pipelines look poised to benefit from the escalating challenges of scarce global energy. We expect waste management companies to deliver above-market growth thanks to unwavering demand for their operations that convert to pricing power. For utilities, U.S.-oriented operations and a supportive regulatory environment provide a degree of protection from geopolitical threats, enabling some of the increased cost of capital and inflation to be passed on to consumers. We also think that both utilities and waste management offer attractive valuations compared to the broader stock market.

FIGURE 2: GLOBAL INFRASTRUCTURE HAS PERFORMED WELL DURING INFLATIONARY PERIODS

Annualized performance during months with positive inflation (%) (Jan 2022 to Sep 2023)



Data source: Morningstar Direct and Nuveen. **Performance data shown represents past performance and does not predict or guarantee future results. Representative indices: Commodities:** S&P GSCI Index; **Global infrastructure:** S&P Global Infrastructure Index; **High yield corporates:** Bloomberg US Corporate High Yield Index; **U.S. real estate:** MSCI US REIT Index; **Global real estate:** FTSE EPRA Nareit Developed Index; **Non-U.S. equities:** MSCI ACWI Ex USA Index; **U.S. equities:** S&P 500 Index; **Global equities:** MSCI World Index; **Global bonds:** Bloomberg Global Aggregate Index; **Inflation:** US BLS CPI All Urban NSA 1982-1984; **U.S. bonds:** Bloomberg U.S. Aggregate Bond Index. Calculated using annualized returns from months with positive inflation (192 out of 264 months).

Global infrastructure companies appear particularly well positioned in the current environment.

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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