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CIO Weekly Commentary
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CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Inflation and wage pressures: where to invest

Bottom line up top

- **Watch wage inflation.** Hotter-than-expected inflation is the gift that keeps on taking — and wage inflation has chipped in more than its fair share. Last week's CPI data showed levels not seen since the 1980s, which came on the heels of January's blockbuster jobs report and a jump in average hourly earnings. We see the nearly 6% year-over-year wage increase as a wildcard in the overall inflation picture. And the Fed is eyeing it like — well, like a hawk. The chief risk is the Fed will err on the side of ratcheting up its already aggressive tightening plans, potentially sinking the recovery.

- **Think beyond the basics to position portfolios** for an environment in which higher wages, a smaller overall labor force and increased productivity may become longer-term fixtures and stronger drivers of investment performance. This could lead to opportunities in alternatives such as real estate and other inflation-hedging real assets, as well as in select municipal bonds.

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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.

There's more to the wage inflation story

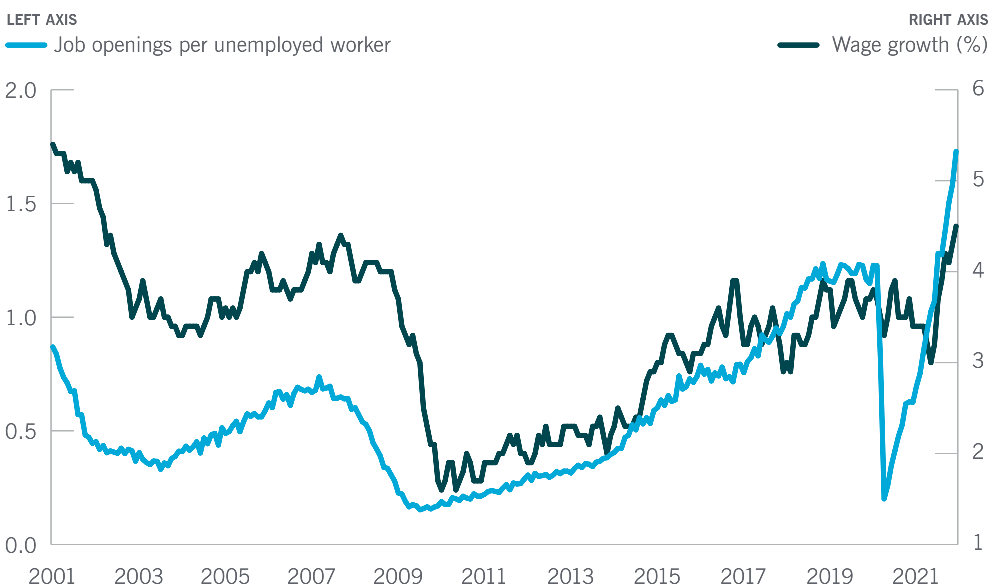
- **The employment market may be more complex than some think.** The number of job openings per unemployed worker spiked following the COVID-induced recession, with sharp wage increases kicking in a year later

(Figure 1). But the economy recently added roughly half a million payrolls per month, and the labor force participation rate increased to 62.2% last month, showing some slack remains.

- **Structural changes may be in play.** For now, the economy is pulling more workers into jobs than it is losing to retirement. But long-term demographic trends and Covid-driven behaviors (e.g., the Great Resignation) may mean that a permanently smaller workforce isn't out of the question. This could lead to stickier wage inflation that pressures corporate profit margins.

Higher wages, a smaller overall labor force and increased productivity may become longer-term fixtures and stronger drivers of investment performance.

FIGURE 1: THE LABOR SUPPLY FEELS THE CRUNCH



Data source: Bloomberg, L.P., BLS, Atlanta Fed, Jan 2001 to Dec 2021.

Positioning for a high wage-inflation environment

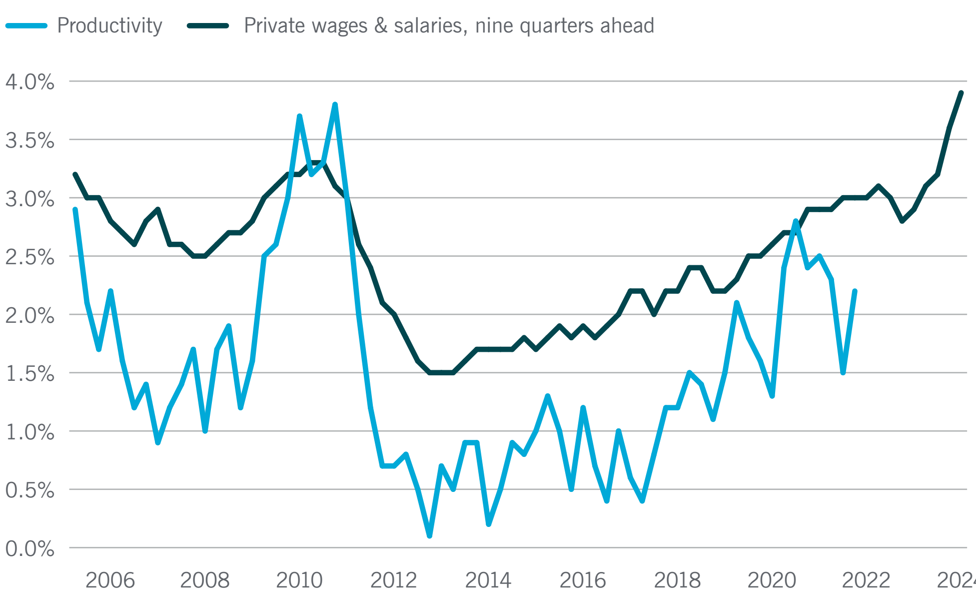
- **Wage inflation today could lead to higher productivity tomorrow,** as employers that pay more have an incentive to ensure these employees can generate more output (Figure 2). We see opportunities in owning **equity and credit of companies that prioritize real estate, equipment, technology and intellectual property.** Likewise, these trends could spell opportunities for the **energy and materials sectors.**
- Inflation and wage trends could present less obvious opportunities, especially across **private assets where control over profit margins creates attractive prospects.**

- **Real estate** can offer capital appreciation and income opportunities when inflation rises. And many long-term leases have built-in rent escalators that protect real income generation. Higher wages can lead to more spending, which is a plus for **single-family and multi-family residential housing.** Further, from the perspective of owning and managing real estate properties, there is a clear benefit: control. As such, **direct real estate managers** have the flexibility to improve operations and focus on new technologies to manage costs. They can also use their properties creatively to generate revenue and offset higher wages, perhaps converting underutilized spaces like basements into amenity spaces, storage facilities or data centers.
- **Agriculture and farmland** can be excellent inflation hedges, but these asset classes are not entirely immune from inflation pressures. Certain areas, however, could provide relative advantages, such as **agribusinesses** that can pass the cost of higher wages onto customers. **Farmland assets with long-term leases** can also provide some insulation from rising costs.
- Select **municipal bonds** can also benefit, especially those with **shorter duration.** Rising wages are resulting in increasing tax revenues, a benefit to municipalities. From a credit standpoint, the impact of higher labor costs is project dependent. For example, we see relative advantages for sectors like toll roads (which are largely automated) over areas such as hospitals (especially smaller hospitals that lack scale and have high labor costs). However, **selectivity and research are key.**

We see a number of interesting ways to take advantage of the inflation and wages backdrop, but selectivity and research are key.

FIGURE 2: RISING WAGES COULD SIGNAL SURGING PRODUCTIVITY

2-year annualized rate



Data source: Deutsche Bank, BLS, Bloomberg, L.P. Productivity data from Jun 2005 to Dec 2021. Private wages and salaries from Jun 2005 forecasted to Mar 2024 (forecasted nine quarters ahead).

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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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. Investing in municipal bonds involves risks such as interest rate risk, credit risk and market risk, including the possible loss of principal. The value of the portfolio will fluctuate based on the value of the underlying securities. There are special risks associated with investments in high yield bonds, hedging activities and the potential use of leverage. Portfolios that include lower rated municipal bonds, commonly referred to as "high yield" or "junk" bonds, which are considered to be speculative, the credit and investment risk is heightened for the portfolio. Credit ratings are subject to change. AAA, AA, A, and BBB are investment grade ratings; BB, B, CCC/CC/C and D are below-investment grade ratings. 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. Socially Responsible Investments are subject to Social Criteria Risk, namely the risk that because social criteria exclude securities of certain issuers for non-financial reasons, investors may forgo some market opportunities available to those that don't use these criteria. 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. 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.

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