

## CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

# Housing market still knocking on investors' doors

### Bottom line up top:

**The housing market hasn't worn out its welcome.** A jump in home prices and a 1% upswing in mortgage rates have investors wondering if there's still upside for housing. Adding to the cautionary tone is the disconnect between worsening homebuyer sentiment and unprecedented homebuilder optimism (Figure 1). While these trends may pose headwinds, they're unlikely to blow the house down any time soon. On balance, housing looks to be a source of investment opportunity.

**Diminished supply remains a key sticking point.** The supply of homes for sale in the U.S. has been falling over the last 15 years and hit an all-time low in January (Figure 2). We see a shortage of three to five million units across the U.S. due to factors such as overhang from the housing crisis and massive migration from larger coastal cities into the Sunbelt, where housing stock is scarce. Given extremely limited inventory, average home prices should continue to climb, albeit more slowly than last year's nearly 20% rise.

**What does this mean for portfolios?** A robust housing market speaks to overall economic health, and there are clear beneficiaries, such as real assets and municipal bonds. At the same time, we have a few words of caution for investors with exposure to mortgage-backed securities (MBS).

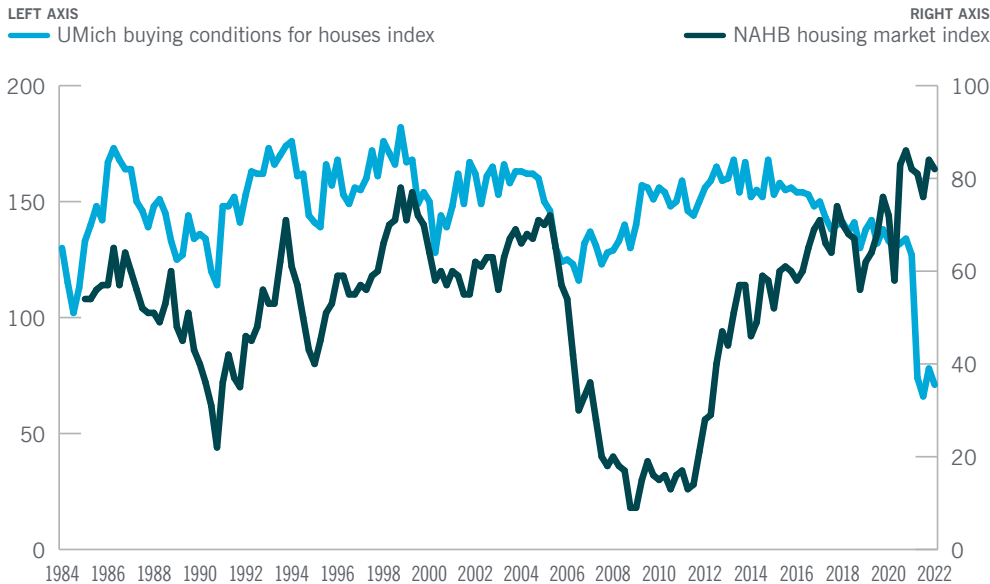


**Saira Malik, CFA**  
*Chief Investment Officer*

*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.

**FIGURE 1: SENTIMENT: BUYERS AND BUILDERS AREN'T ON THE SAME PAGE, OR EVEN THE SAME BLOCK**



Data source: Bloomberg, L.P., National Association of Home Builders, University of Michigan. March 1984 to February 2022.

*The still-strong housing market should create ongoing sources of investment opportunity.*

## Portfolio construction implications

Over the past few weeks, we've discussed interest rates, wage inflation and overall economic growth. Housing, which accounts for roughly 17% of U.S. GDP, sits squarely at the intersection of these major themes. With that in mind, we offer the following views about which asset classes may benefit most from a strong housing market, and what this means in the context of portfolio construction.

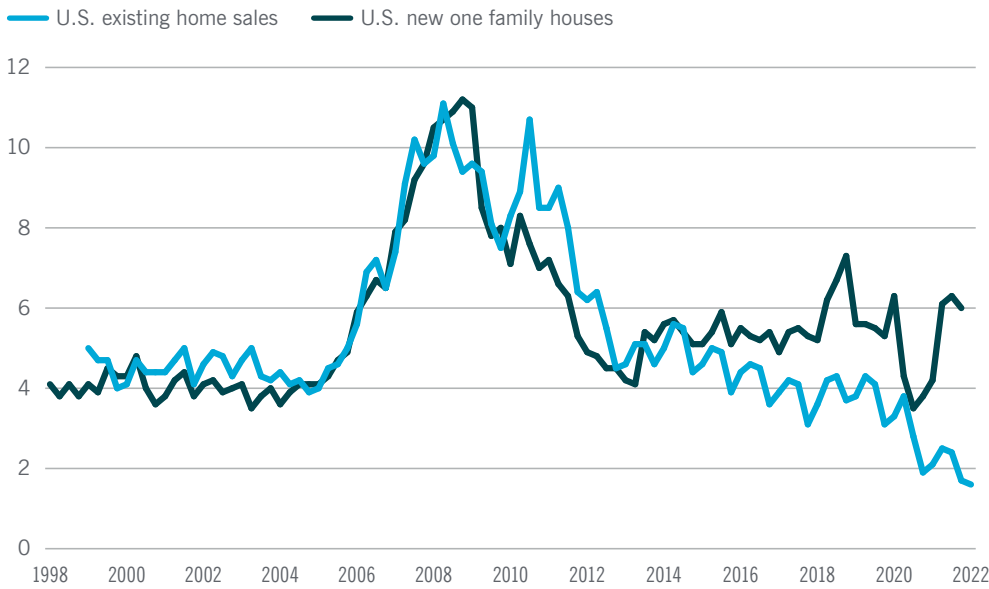
- **Real estate:** Significant exposure to real estate should help investors **benefit from inflation and generate returns**, despite rising rates and increased input costs. But **selectivity is critical:** In particular, we advocate striking a balance between geography (acquiring properties where demographics are shifting and demand outpaces supply) and property type (single and multi-family housing, but also properties that support the community ecosystem, such as senior living).
- **Municipal bonds:** Higher home prices are clearly a boon to municipalities, as they rely on property taxes to fund debt. This includes **general obligation bonds** issued by local governments and school districts, as well as **land-secured bonds**. Property tax collection is accelerating at historically high rates, solidifying the resilience of municipal credit.

- **But we're cautious toward mortgage-backed securities and core bond strategies with significant exposure to that sector:** Even with elevated mortgage applications and the corresponding repackaging of loans into MBS, it's difficult to contend with the Fed reducing its purchases of new MBS and allowing its balance sheet to shrink. Portfolios most susceptible to these risks include those with sizable allocations to MBS and high levels of rate sensitivity via weightings in core bonds and other sectors in the broad aggregate index.

*Higher home prices are clearly a boon to municipalities, as they rely on property taxes to fund debt.*

**FIGURE 2: SHRINKING SUPPLY SHOULD LEAD TO CONTINUED STRENGTH IN HOME PRICES**

*Monthly supply*



Data source: Bloomberg, L.P., March 1998 to January 2022.

## 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](http://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 is no guarantee of 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](http://nuveen.com). **Please note, it is not possible to invest directly in an index.**

#### A word 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. 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.

Nuveen provides investment advisory services through its investment specialists.

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