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CIO Weekly Commentary
15 August 2022

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Neither bubble nor bottom for U.S. housing market

Bottom line up top:

Creaks, but not cracks, in the foundation. Despite a recent raft of wobbly U.S. housing data, we foresee a relatively stable housing market in the near term. True, conditions haven't yet returned to normal. Deteriorating homebuilder and consumer sentiment, higher mortgage rates, historically low affordability, declines in housing starts and building permits, and record-low inventories of existing homes for sale, among other factors — all have significant implications for the housing sector, and thus the broader economy. But in our view they're not evidence of a housing bubble that's due to burst. Consumer pessimism aside, demand for homes is still healthy. Further, mortgage rates have moderated since the spring and lending standards remain rigorous. And those glum homebuilders? Confidence may be down sharply this year, but has nonetheless remained above its long-term average (Figure 1).

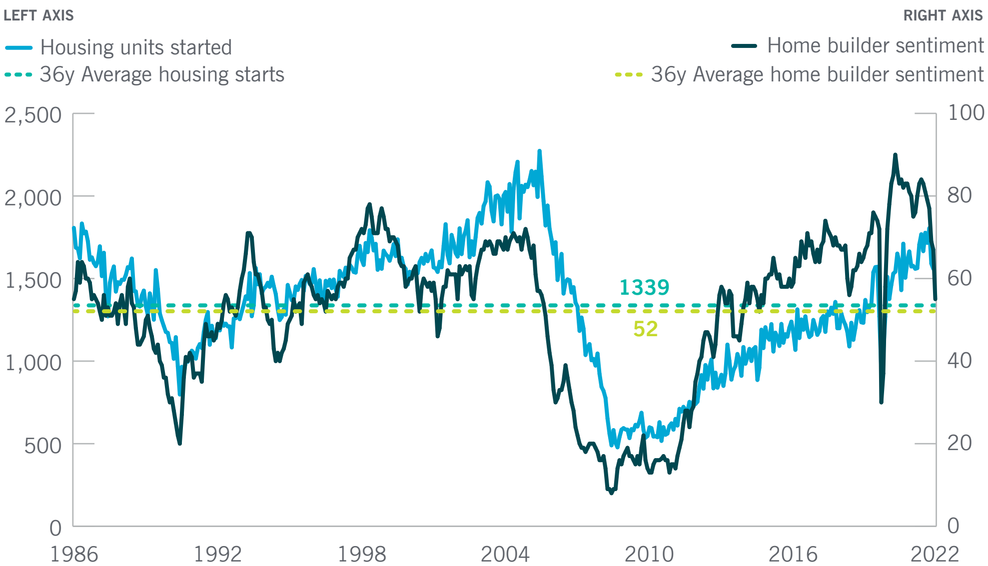
But plenty of pain remains, especially for renters. Traditionally, those priced out of single-family homeownership have turned to the rental market, where houses, apartments and other multi-family dwellings have offered more affordable options. But supply constraints, demographic trends favoring renting over owning, and efforts by some landlords to recoup pandemic-related losses have sent the national median rent soaring to $2,000 per month for the first time ever, according to Redfin. The severity of rent inflation varies by region, based on CPI shelter data (Figure 2). Underscoring the supply squeeze are anecdotal reports that bidding wars are now common in the rental market amid the persistent shortage of units. We expect these market conditions to continue for some time.

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.

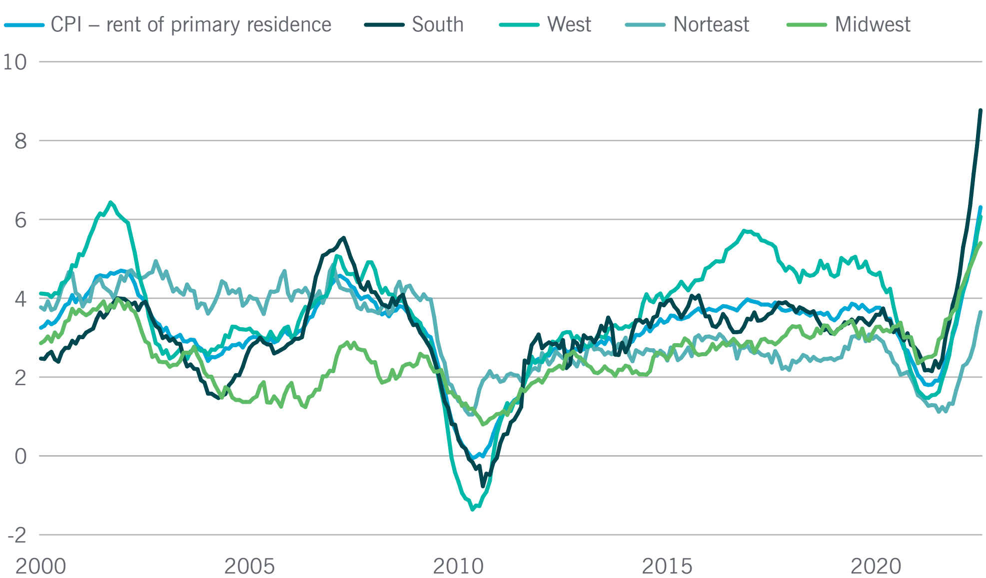
FIGURE 1: HOMEBUILDERS KNOCKED DOWN TO EARTH, BUT ABOVE-AVERAGE OPTIMISM AND BUILDING ACTIVITY REMAIN



Data source: Bloomberg L.P., 1 Aug 1986 to 31 Jul 2022. **Past performance does not predict or guarantee future results.** Housing units starts represents U.S. new privately owned housing units started by structure (seasonally adjusted annual rate). Home building sentiment is measured by the National Association of Home Builders Market Index SA.

FIGURE 2: RENT INFLATION IS HOTTEST IN THE SOUTH

Year-over-year CPI rent inflation (%) by region



Data source: Bloomberg L.P.. 1 Jan 2000 to 31 Jul 2022.

Another way to stay defensive is to shift some equity risk to strategies that still offer upside return but with decidedly less downside risk.

What are the portfolio implications?

Real estate investors should be well positioned, especially if their sector and regional exposures are aligned with prevailing demographic and supply/demand trends. Builders are still playing catch-up from the global financial crisis, with housing starts still above trend. This reinforces longer-term price stability in the sector and supports our constructive outlook.

At the same time, U.S. consumers are feeling the squeeze of higher home prices and rental costs, causing them to curb their spending on other goods and services. A recent Bank of America report, for example, showed a decline in credit card purchases. Consumers who spend less will eventually take a toll on corporate earnings. That, along with continued broad economic uncertainty, suggests that market volatility will persist.

Our takeaway: *remain defensive*

There are a number of ways to do this, but the largest source of portfolio volatility is equities. As we've been saying for some time now, we like dividend growth stocks. They're generally higher quality and derive more of their total return from dividends than from price appreciation.

Another way to stay defensive is to shift some equity risk to strategies that still offer upside return but with decidedly less downside risk. Private real estate falls into this category, having delivered consistent returns over time (including in 2022) while typically avoiding extreme return scenarios (up or down) compared to other asset classes. Figure 3 shows the distribution of returns across REITs, U.S. equities and private real estate.

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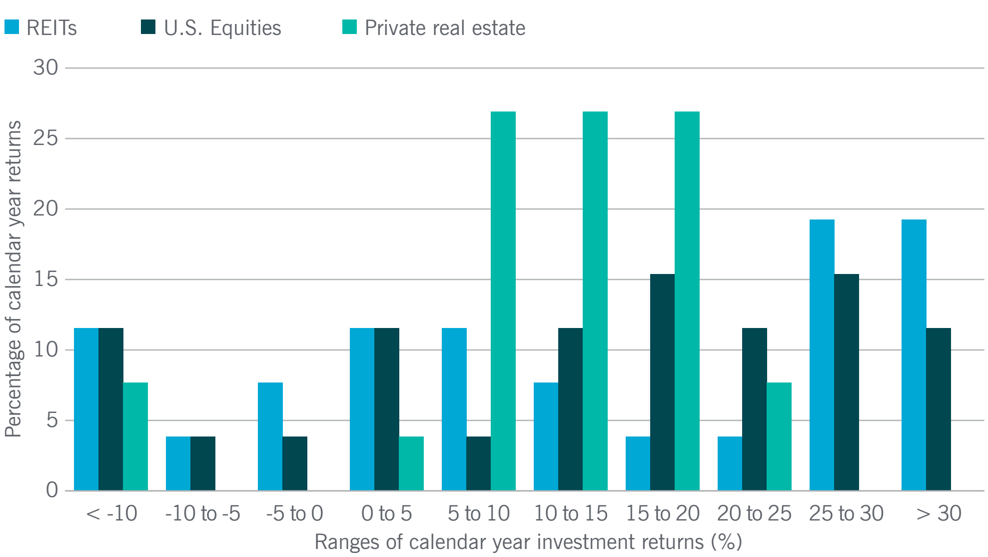
FIGURE 3: PRIVATE REAL ESTATE: CONSISTENCY OF RETURNS VS. SWINGING FOR THE FENCES

Histogram of historical return observations



Data source: Morningstar, 31 Jul 2022. Calendar year returns 1996 – 2021. **Past performance does not predict or guarantee future results.** **Representative indexes: REITs:** FTSE Nareit All Equity REITs Index; **U.S. equities:** S&P 500 Index; **private real estate:** NCREIF Fund ODCE Index.

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.

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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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