

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Emerging investment opportunities

Bottom line up top:

2022: A global bear market odyssey. The havoc wreaked on global risk assets last year has become canon, with some of the worst pain felt across emerging markets equities and fixed income. Further complicating the investment environment for these asset classes was China's struggle to contain the coronavirus and the adverse effects from the U.S. Federal Reserve's historic rate hike cycle. The U.S. dollar strengthened as a result, making dollar-denominated debt more difficult to service. Both EM equities and debt saw their worst returns since the Global Financial Crisis, with the MSCI EM Index and the JPMorgan Emerging Market Bond Index falling 20.1% and 17.8% for the year, respectively. While the bear market may have taken a disproportionately large bite out of EM securities, we don't expect them to be left behind when global markets eventually rebound.

Emerging markets should recover. U.S. equity and fixed income markets may be poised to rebound ahead of their counterparts in non-U.S. developed markets, thanks to "being ahead of the curve" when it comes to monetary and Covid-related policies. Within EM, where central banks were generally one step ahead of the U.S. in terms of monetary tightening, we see a handful of developing trends that could provide a sound foundation for a recovery across asset classes, including: 1) optimism for a weaker U.S. dollar that results from moderating inflation and a slower pace and/or pause in Fed rate hikes; 2) better-than-expected economic activity out of China following the end of its "zero-Covid" policies; 3) declining correlations among the



Saira Malik, CFA

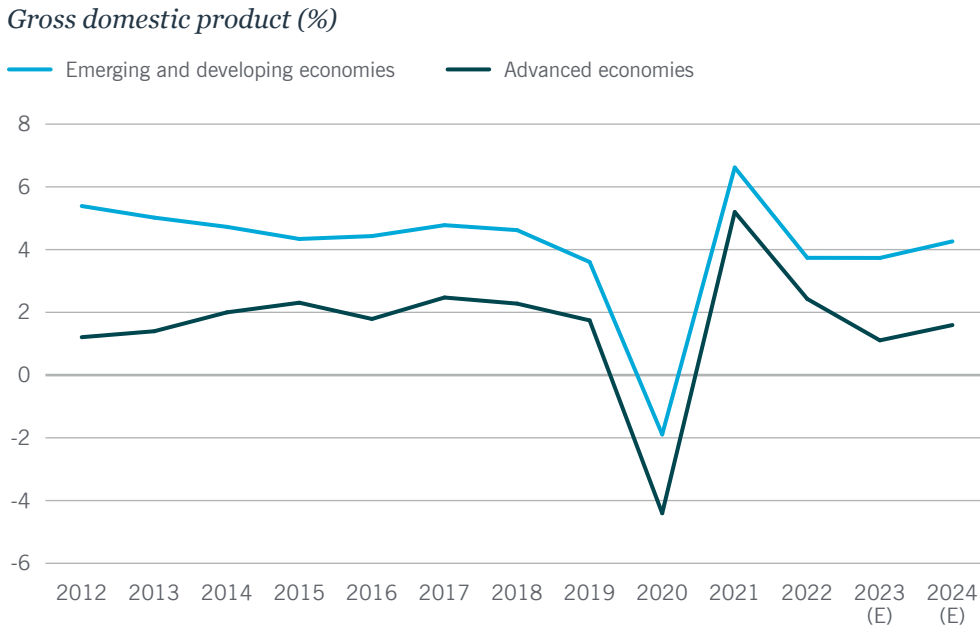
Chief Investment Officer

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.

largest constituent countries; 4) manageable issuance on the debt side; and 5) an elevated starting point for yields in 2023, which could lead to robust total returns by year-end for fixed income securities.

FIGURE 1: GLOBAL ECONOMIC UNCERTAINTY REMAINS ELEVATED



Data source: International Monetary Fund, World Economic Outlook Database, October 2022.

Portfolio considerations:

So far in 2023, returns for both emerging markets debt and equity have outperformed their peers in the U.S. thanks to a collection of tailwinds, including an accelerated reopening of China; improved risk sentiment toward credit and a weaker U.S. dollar. An improving economic backdrop across the EM landscape also underpins expectations of stronger returns as GDP growth of EM countries is set to outpace that of advanced economies over the next two years (Figure 1). Within EM debt, attractive yields and the increasing potential for interest rate cuts should continue to support strong total returns. Also, EM debt issuers servicing U.S. dollar-denominated debt could find additional relief should the dollar continue to weaken. Broadly speaking — with technicals remaining supportive, larger cash balances on the sidelines and the challenges associated with distressed sovereign governments largely priced-in — headwinds should continue to ease for EM debt this year, alongside global inflation.

EM debt is a wide and diverse asset class with opportunities across sectors. Within local markets, we are focused on countries that raised rates earlier, and in some cases more extensively, than the U.S. Fed. This has led to a

U.S. equity and fixed income markets may be poised to rebound ahead of their counterparts in non-U.S. developed markets.

more attractive foreign exchange profile. We currently favor EM corporate issuances over sovereigns thanks to elevated yields among high quality, well-established EM-domiciled issuers. Among issuers, we prefer those with sound balance sheets and exposure to solid macroeconomic fundamentals, while tilting toward positive reform stories. We also prefer issuers with exposure to diversified commodities, balancing that with countries fueled by higher domestic demand amid a normalizing of economic activity from the impacts of Covid-19. These positions should be more resilient given the potential for slower economic growth. Though the macro backdrop has improved recently, selectivity will remain key.

EM equities could be rewarding for investors who have the ability to move further up the risk spectrum in search of higher return potential. EME valuations are well below their long-term averages and remain inexpensive relative to the U.S., while forecasted EPS growth estimates over the next few years are notably more attractive than developed market counterparts (Figure 2). Entering 2023, earning expectations are negative for EM companies, the first negative forecast since 2009. However, with renewed optimism in China and potential for geopolitical issues to improve, consensus forecasts may be too conservative.

Entering 2023, earning expectations are negative for EM companies, the first negative forecast since 2009.

FIGURE 2: EM VALUATIONS ARE WELL BELOW THEIR LONG-TERM AVERAGE

MSCI EM Index EPS growth estimates (%)

EPS Growth (est.)	Emerging markets	Non-U.S. developed	U.S.
2022	-9.83	7.18	5.48
2023E	-1.00	1.67	3.27
2024E	15.81	6.41	10.47
2025E	9.92	7.18	9.84

Data source: FactSet; estimates as of 24 Jan 2023. Performance data shown represents past performance and does not predict or guarantee future results. Representative indexes: emerging markets: MSCI Emerging Markets Index; non-U.S. developed: MSCI EAFE Index; U.S.: S&P 500 Index.

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. Diversification is a technique to help reduce risk. There is no guarantee that diversification will protect against a loss of income. 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. 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. Foreign investments involve additional risks, including currency fluctuation, political and economic instability, lack of liquidity, and differing legal and accounting standards. These risks are magnified in emerging markets. 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. Nuveen provides investment advisory 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

294202

GWP-2706731PG-E0123P