

## CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

# Add structure to your portfolio

### Bottom line up top:

#### **Markets peer beyond the fog, but the forecast remains cloudy.**

Both U.S. public equities and fixed income markets rallied in the opening weeks of 2023 as the disconnect between market expectations and the U.S. Federal Reserve rhetoric continued. The S&P 500 Index has reached price levels not seen since August 2022, while the Bloomberg U.S. Aggregate Bond Index added 3% in January. We remain more constructive toward fixed income thanks to sound fundamentals, higher yields and an improving rate environment. The recent equity market rally was bolstered by promising economic data that led the Fed to reduce the pace of its rate hikes and forced Chair Jerome Powell to acknowledge signs of disinflation. This is welcome news. Equity markets seem to insist on pricing in a best case scenario for a soft landing and policy pivot in 2023, despite the lingering and potentially risky downside.

**Lower and slower or higher and longer.** The Fed is likely to hold rates higher for longer, until it is either satisfied that inflationary pressures among housing and wages have subsided, or the toll inflicted by 400-plus basis points of rate hikes becomes too painful. Consensus estimates still call for a recession, albeit a mild one, through the middle of 2023 (Figure 1). This view is supported by last week's Institute for Supply Management's Manufacturing PMI, which fell in January to 47.4. Since ISM's inception in 1948, new orders have only been this low immediately before or just after entering a recession. For the S&P 500, earnings growth estimates in 2023 remain positive and continue to trade at the same valuation levels as when the fed funds rate was



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*On behalf of Nuveen's Global Investment Committee*

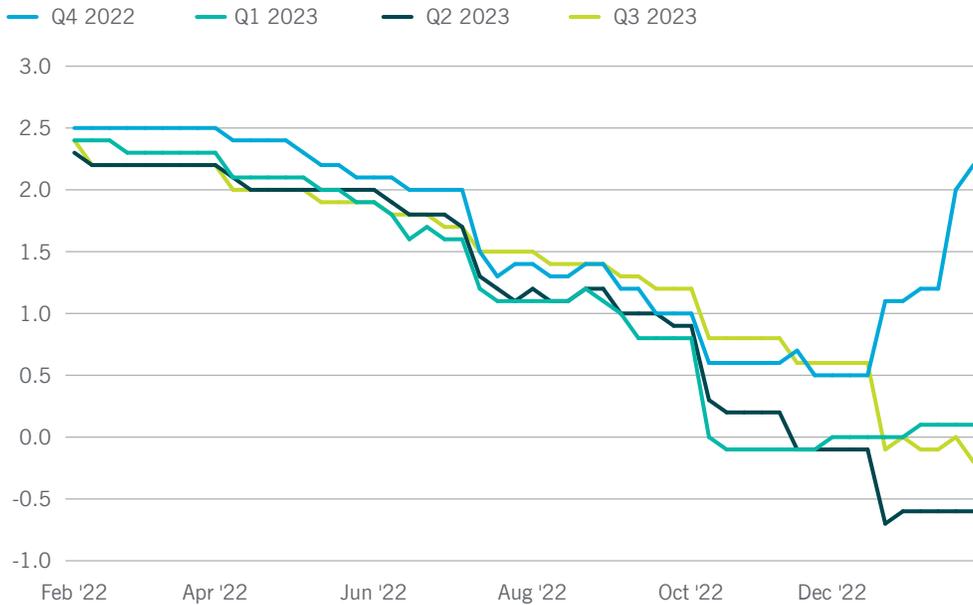
As Nuveen's CIO and leader of our Global Investment Committee, Saira drives market and investment insights, delivers client asset allocation views and brings together the firm's most senior investment leaders to deliver our best thinking and actionable investment ideas. In addition, she chairs Nuveen's Equities Investment Council and is a portfolio manager for several key investment strategies.

targeting 0.25% to 0.50%. Going forward, investors must balance the risks presented by current valuation levels and decelerating economic growth. We believe recession resilient asset classes including infrastructure, warrant consideration.

***We remain more constructive toward fixed income thanks to sound fundamentals.***

**FIGURE 1: GROWTH ESTIMATES ARE WANING**

*Bloomberg consensus U.S. GDP growth (%)*



Data source: Bloomberg, L.P., From 04 Feb 2022 through 27 Jan 2023. Performance data shown represents past performance and does not predict or guarantee future results.

## Portfolio considerations:

In the near term, for clients and their portfolios, the best offense is a good defense and defensive positioning across equities, including in U.S. public infrastructure. This sector tends to be well insulated from the higher costs of rising rates and heightened inflation. Inflation continues to decline and has fallen by 2.6% since June of last year, although we expect the next 2.6% drop will be much tougher than the first. Inelastic demand for the essential services that infrastructure provides could also buffer the asset class from an economic slowdown. (Figure 2).

Within U.S. infrastructure, we prefer waste management, midstream pipelines and utilities. For utilities, U.S. oriented operations and a supportive regulatory environment provide a degree of protection from geopolitical threats and enable some of the increased cost of capital and inflation to be passed on to the consumer. The passage of the Inflation Reduction Act in 2022 makes green energy spending even more attractive.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

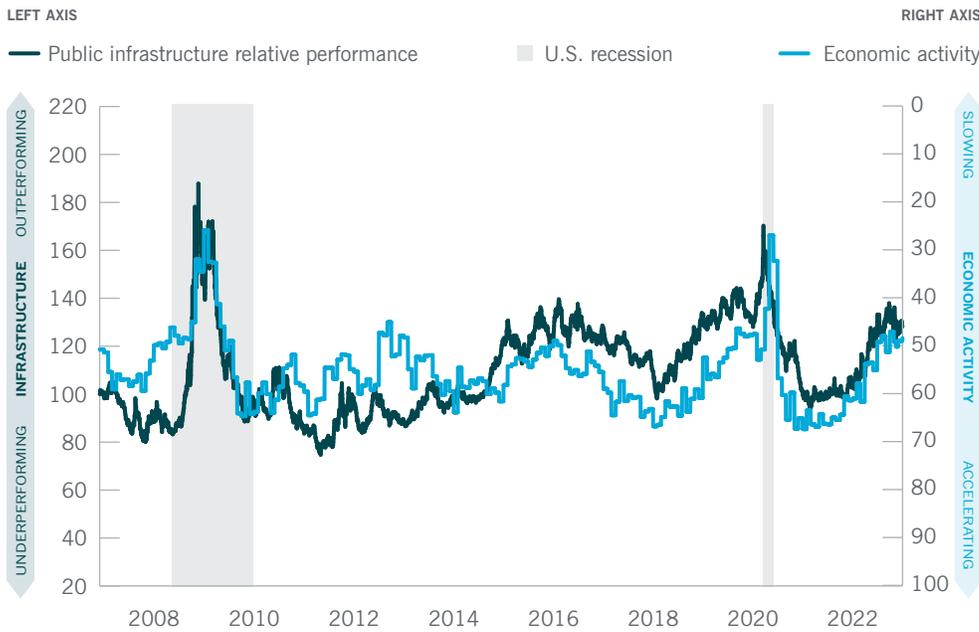
The legislation made deploying and financing renewables significantly cheaper, permitting acceleration of capital expenditures.

As the world relies more on U.S. energy resources, midstream pipelines are poised to benefit from the escalating challenges of scarce global energy. Most contracts have a fixed fee, with escalator, that allow revenues to increase in tandem with inflation. Waste management companies should deliver above-market growth thanks to unwavering demand for their operations that convert to pricing power. These high quality operations should generate predictable cash flows during an economic slowdown.

**Waste management companies should deliver above-market growth thanks to unwavering demand for their operations that convert to pricing power.**

**FIGURE 2: INFRASTRUCTURE HAS HISTORICALLY OUTPERFORMED DURING GROWTH SLOWDOWNS**

*The asset class has generally been better insulated from inflation and the higher costs of debt*



Data source: Nuveen Portfolio Strategy & Solutions. Bloomberg, L.P., 01 Nov 2006 to 31 Dec 2022. Performance data shown represents past performance and does not predict or guarantee future results. Public infrastructure is represented by the FTSE Developed Core Infrastructure Index. Performance depicted shows the ratio of the FTSE Developed Core Infrastructure Index performance relative to the FTSE Developed Market Index, indexed to 100. Economic activity is depicted by the ISM Manufacturing Index (a number over 50 indicates expansion; less than 50 indicates contraction). Shaded areas represent U.S. recessions.

## 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

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**For more information, please visit [nuveen.com](http://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. 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. Concentration in infrastructure-related securities involves sector risk and concentration risk, particularly greater exposure to adverse economic, regulatory, political, legal, liquidity, and tax risks associated with MLPs and REITs. 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.

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