

CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

Yearning for earnings growth

Bottom line up top

Stock market bears have something in common with bears in the wild emerging from hibernation: Both are “hangry” and prowling for sustenance. This makes it a good time for us to update our Nuveen Bear Market Tracker (Figure 1). We introduced the tracker last year to help inform discussion and debate around U.S. bear market dynamics, with a focus on valuations, earnings, U.S. Federal Reserve policy, manufacturing activity, market breadth and bond spreads. These metrics are currently a mixed bag, but they suggest that the market’s bad news bears are still being fed a data diet sufficient to prolong their existence. More broadly, a host of economic data — including JOLTS, ADP private payrolls, and service and manufacturing PMIs — have come in softer than expected, increasing the odds of at least a mild recession.

Is the Fed “earning” a recession? Although the unofficial start to corporate earnings season isn’t until this coming Friday, earnings growth expectations for the S&P 500 Index have fallen precipitously since the beginning of the year (Figure 2). Current estimates point to a sharp contraction (-7.0%) year-over-year for the first quarter, and growth of only 0.94% for calendar year 2023. Barring an upside surprise, this would mark the second consecutive quarter of negative earnings growth (-5.8% in 4Q 2022), putting the S&P 500 in an earnings recession. Earnings recessions historically haven’t guaranteed a broader economic downturn will follow, but we expect the factors that have driven earnings degradation (inflation and the Fed’s historic



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.

reaction to it) will indeed lead the U.S. economy to contract. With that in mind, our Portfolio Considerations section examines the areas of equity markets investors might seek out, and which to avoid.

Earnings growth expectations for the S&P 500 Index have fallen precipitously since the beginning of the year.

FIGURE 1: OUR TRACKER CURRENTLY SHOWS A MIXED BAG

Nuveen Bear Market Tracker

As of 03 April 2023		Signaling a near-term bottom?
VALUATIONS	S&P 500 Index forward price/earnings ratio	
	Level at start of '22 bear market	21.5
	Current level	18.3
	Change (%)	-15.0%
		18.3x implies a 4.3% equity risk premium (vs the 10Y TIPS yield of 1.1%), still below average
EARNINGS	S&P 500 Index forward earnings per share	
	Level at start of '22 bear market	\$223
	Current level	\$225
	Change (%)	+1.1%
		Meaningful revisions have brought forward earnings back to the start of the bear market
U.S. FEDERAL RESERVE POLICY	Fed funds rate	
	Level at start of '22 bear market	0.25%
	Current level	5.00%
	Change (net)	+4.75%
		The updated dot plot indicates one more 25 bps hike and then a Fed pause
MANUFACTURING ACTIVITY	ISM new orders index:	
	Level at start of '22 bear market	60.7
	Current level	44.3
	Change (net)	-16.4
		Fell further into contraction in March, yet to reach levels of prior bear markets
MARKET BREADTH	% of S&P 500 Index members above their 100 week moving average:	
	Level at start of '22 bear market	92%
	Current level	50%
	Change (net)	-42%
		Breadth has fallen after reaching a recent high of 62% in February
BOND SPREADS	Bloomberg U.S. high yield spread (bps)	
	Level at start of '22 bear market	278
	Current level	454
	Change (net)	+176
		Spreads materially widened right after the banking turmoil began, however they have started to contract and remain narrow vs past bear markets

■ Further away
 ■ Picture is mixed
 ■ Close to a bottom

Data source: Bloomberg, L.P., 03 April 2023. Performance data shown represents past performance and does not predict or guarantee future results. Spreads represent Bloomberg U.S. Corporate High Yield Index option-adjusted spread to Treasuries. The views above are for informational purposes only and do not reflect the experience or performance of any Nuveen product, strategy or service.

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

Portfolio considerations

With the end of the interest rate hiking cycle approaching, certain equity sectors that were among the hardest hit by rising rates over the past year may now be poised to benefit. Within information technology, we believe software could get a big boost. Select software companies that are less cyclical in nature may be good candidates for defensive positioning as we face an economic slowdown and possible recession later this year. Software names tend to have more resilient business models and inelastic demand, with cash flows driven by enterprise revenue — typically a more consistent source of recurring revenues than consumer-focused companies. They're also more adaptable to changes in the economic environment, with the ability cut costs without curtailing their business.

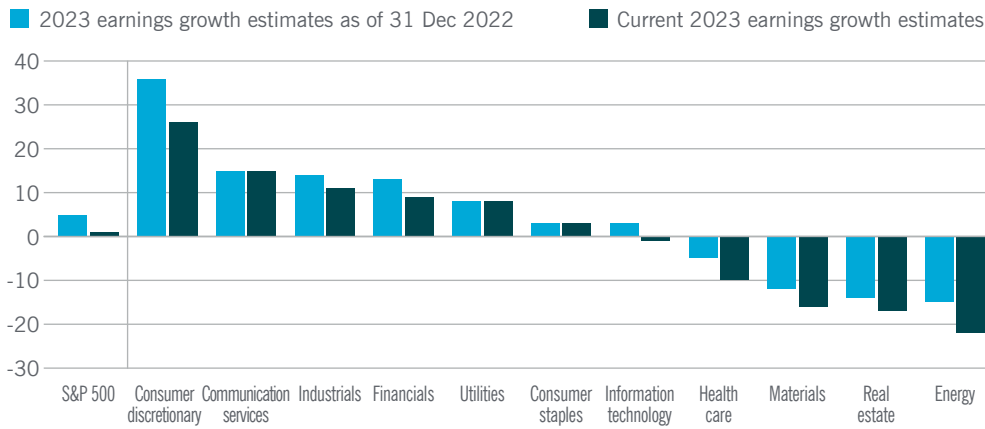
Consumer discretionary exposure tilted toward global consumers is another area we find attractive. U.S. consumers face near-term challenges, as the unemployment rate is likely to rise, while savings are depleted to meet higher expenses amid persistent inflation. Specifically, consumer exposure favors countries and regions like China, where we see positive catalysts in the form of government stimulus, pent-up demand from Covid lockdowns and strong employment markets.

We are less optimistic about financials and public real estate, two sectors with decreasing 2023 earnings growth estimates since the start of the year (Figure 2). Banks will be facing regulatory pressures on capital liquidity, as well as increased competition for customer deposits. Additionally, bank lending standards have tightened and will likely continue to do so, with potentially negative implications for the wider economy. Regional bank concerns in the wake of the Silicon Valley and Signature closures could flow into the real estate market, as such banks have significant exposure to commercial real estate. We are cautious about the office and retail property subsectors, both of which are more cyclical. In particular, office is still feeling the pinch from the work-at-home environment, with many tenants opting to shrink their physical footprint.

Certain equity sectors that were among the hardest hit by rising rates over the past year may now be poised to benefit.

FIGURE 2: SECTOR EARNINGS ESTIMATES REVISED DOWNWARD OVER THE FIRST QUARTER

S&P 500 first quarter 2023 earnings forecasts (%)



Data source: FactSet, 04 April 2023. Performance data shown represents past performance and does not predict or guarantee future results.

U.S. consumers face near-term challenges, as the unemployment rate is likely to rise while savings are depleted.

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. 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.

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

299261

GWP-2831943PG-E0423P