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CIO Weekly Commentary
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CIO VIEWS: STRATEGY AND PORTFOLIO CONSTRUCTION

A defensive upgrade to portfolio positioning

Bottom line up top

- **Debt downgrade derails equity rally.** Last week, red-hot equity markets were doused with a bucket of cold water following a U.S. debt ratings downgrade by one of the major credit rating agencies. Though the full impact won't be known for some time, we can believe that the fallout from this downgrade will be different from the last time U.S. debt was downgraded in 2011. That downgrade resulted from austerity measures enacted following the Global Financial Crisis, when inflation and interest rates were low and there were fewer concerns over government debt. Today, debt financing, both public and private, is contending with the highest borrowing rates in over a decade, while federal debt has reached well above 100% of U.S. economic GDP.

- **Will "FOMO" turn into "Oh, no"?** The overall equity market backdrop in 2023 has been such a pleasant surprise that financial media has reintroduced the all-too-popular phrase, "Fear Of Missing Out" back into the lexicon. While year-to-date gains have been a welcome reprieve from the bear market volatility of 2022, last week's news proved how fragile the rally had become. Beyond the U.S. credit downgrade, elevated inflation and higher-for-longer interest rates continue to act as headwinds for markets and the underlying economy. Though last week's nonfarm payrolls underpinned the healthy employment backdrop, wage gains – one of the Fed's most closely watched data points – are still well above long-term trends (Figure 1). Though a persistently resilient economy and better-than-expected earnings are reasons for measured confidence, we see lofty valuations

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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.

and downside risks pointing to heightened volatility over the near-term. We also believe investors may want to consider adding a little more quality defensive positioning to their equity allocations.

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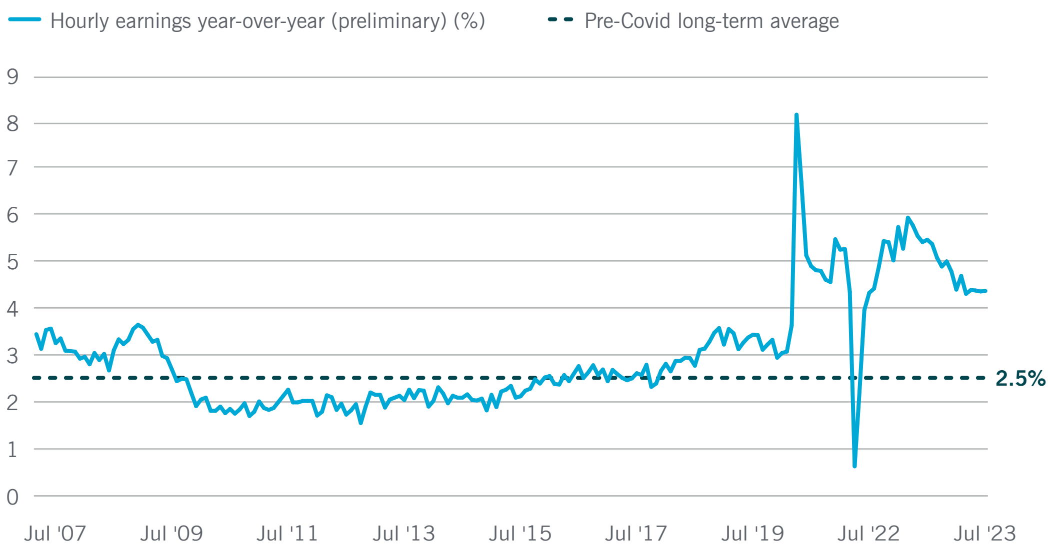
FIGURE 1: WAGE GAINS REMAIN ABOVE LONG-TERM TRENDS



Data sources: U.S. Bureau of Labor Statistics, FactSet, 31 Mar 2007 – 31 Jul 2023. Data is seasonally adjusted. "Pre-Covid long-term average" spans 31 Mar 2007 – 28 Feb 2020.

Portfolio considerations

With the likelihood of stubborn inflation in the medium-term, investors who doubt that the current equity rally has additional fuel may want to consider global infrastructure. The sector's profitability tends to be well insulated from the costs of higher interest rates and elevated inflation. For U.S. utilities, for example, a supportive regulatory environment allows for the increased cost of capital to be passed on the consumer. Additionally, many contracts have a fixed fee with an escalator that allows revenues to increase in tandem with inflation.

Inelastic demand for the essential services that infrastructure provides could also buffer the asset class from an economic slowdown. Compared to the broad global equity markets, global infrastructure captures most of the upside, while offering attractive downside capture ratios of 72% – 80% (Figure 2). Areas such as waste management companies are also well prepared for a slowdown, as relatively stable demand for their operations converts to pricing power.

The passage of the Inflation Reduction Act in 2022 makes green energy spending even more attractive. The legislation made deploying and financing renewables significantly cheaper, permitting the acceleration of capital expenditures. In the meantime, North American energy infrastructure, such as gas pipelines, should continue to benefit from relatively favorable dynamics in an elevated inflationary environment. They should also benefit from a growing reliance on global energy supply, a trend that was already in place but exacerbated by the Russia/Ukraine war.

Outside the U.S., the delayed Covid re-opening is having a positive effect in Asia, and global transportation infrastructure demand (i.e., toll roads and airports) has generally recovered to pre-Covid levels. We now expect growth to continue in line with historical demand.

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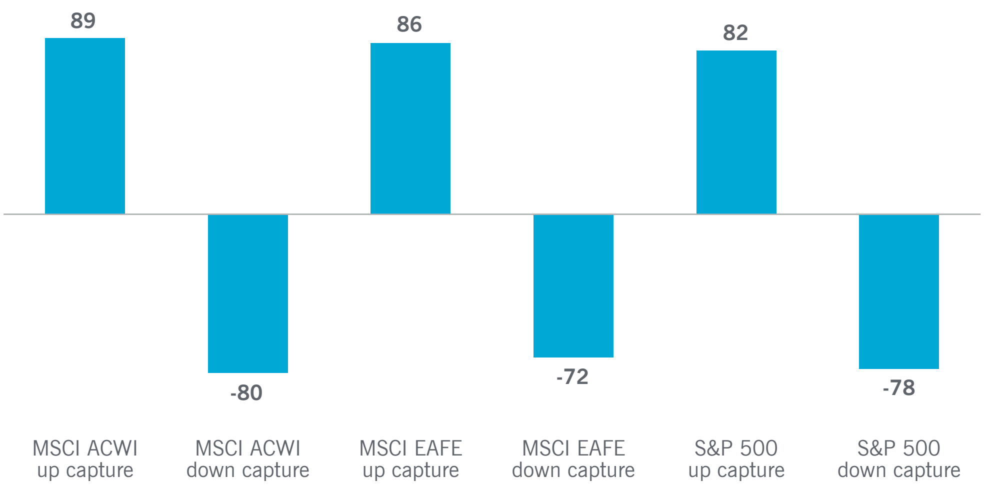
FIGURE 2: GLOBAL INFRASTRUCTURE CAPTURES MOST OF THE UPSIDE, WHILE PROTECTING TO THE DOWNSIDE

S&P Global Infrastructure Index up/down capture vs. various indexes (%)



Data source: Morningstar Direct, 01 Dec 2001 – 31 Jul 2023. **Performance data shown represents past performance and does not predict or guarantee future results.**

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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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