nuveen
A TIAA Company

Viewpoints from the Global Investment Committee
Q4 | 2022 OUTLOOK

Not out of the woods yet

Finding the path forward

KEY TAKEAWAYS

1. **The risks causing elevated volatility (especially inflation) are likely to persist,** but we are not anticipating a deep or prolonged recession.

2. **Markets may offer better value now than they did a few months ago,** but we would caution investors to be wary of value traps.

3. **We prefer a mostly defensive stance** and see better opportunities in credit markets compared to equities. We also like real assets such as farmland.

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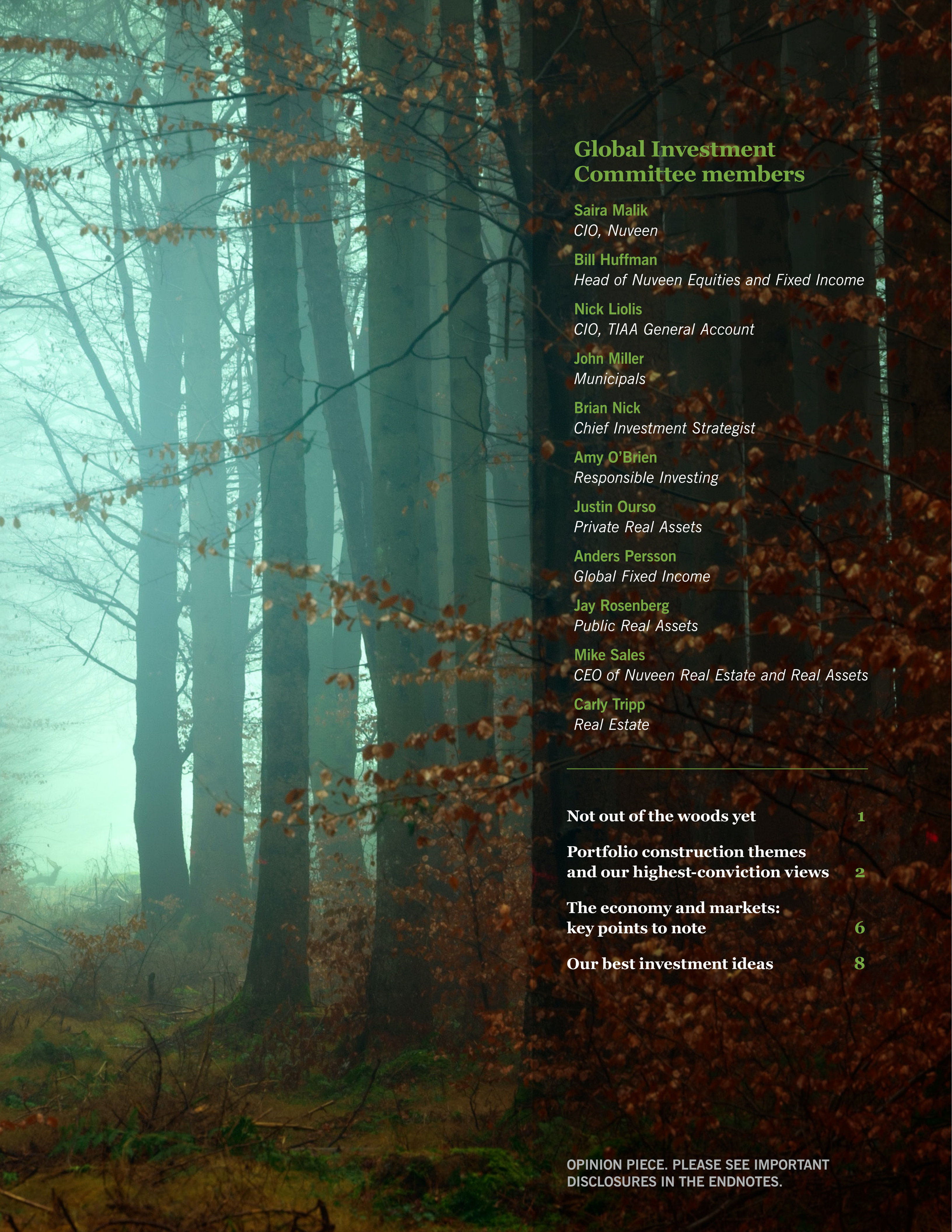

Global Investment Committee members

Saira Malik
CIO, Nuveen

Bill Huffman
Head of Nuveen Equities and Fixed Income

Nick Liolis
CIO, TIAA General Account

John Miller
Municipals

Brian Nick
Chief Investment Strategist

Amy O'Brien
Responsible Investing

Justin Ourso
Private Real Assets

Anders Persson
Global Fixed Income

Jay Rosenberg
Public Real Assets

Mike Sales
CEO of Nuveen Real Estate and Real Assets

Carly Tripp
Real Estate

OPINION PIECE. PLEASE SEE IMPORTANT DISCLOSURES IN THE ENDNOTES.

Not out of the woods yet

Finding the path forward

Saira Malik
Chief Investment Officer

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.

Our previous outlook, "From pain to gain," offered a cautiously optimistic view on market performance and portfolio construction amid one of the most volatile investment environments in memory. That guarded perspective and positioning yielded mostly positive results for much of the summer, but investor confidence dissipated in the face of relentless global central bankers determined to rein in historically elevated levels of inflation — even if doing so meant sacrificing economic growth.

Looking toward the balance of 2022, one thing is clear: We are not out of the woods yet. Both the global economy and global investment markets continue to be waylaid by familiar risks.

That doesn't mean investors have to wander the woods with no trail markers. In the U.S., for example, even if the Federal Reserve's inflation-fighting pushes the economy into recession, the combination of resilient labor markets and household balance sheets leads us to believe that any such downturn would likely be mild and relatively short-lived.

As you'll see in this report's detailed discussion of portfolio construction and our revised asset class "heat map," we are focused on three primary themes:

Preparing for the inflation fever to break is more than a short-term investment play. Because it's impossible to predict exactly when inflation will finally peak, we continue to favor real asset categories that historically have proven less volatile, weathered high-inflation periods well and provided diversification benefits.

The bear won't be morphing into a bull any time soon. Nuveen's data-driven Bear Market Tracker offers signals as to when equities may find their bearings and begin to move closer to bull market territory. Based on current readings, this is unlikely to happen in the near to medium term, so we are maintaining a somewhat bearish view toward equities.

Avoid getting trapped. While bear traps in the woods may be easy for the human eye to spot, value traps in investment portfolios can be less obvious. Relying too much on what appear to be attractive short-term valuations can ensnare investors in ways that greatly diminish long-term outcomes. We suggest ways to avoid these traps while staying attuned to genuine value opportunities when they arise.

There's no question this has been a confounding and challenging year for markets, and we still have a way to go before we emerge from the murk of bearishness into the light of "normalcy." In the meantime, we continue to seek glimmers of incremental economic progress and asset allocation ideas to help investors stay on the path toward their long-term objectives.

Portfolio construction themes

Investors seeking to put this bear market behind them aren't out of the woods yet. *Hopes that inflation might peak quickly, that the U.S. Federal Reserve would pivot, and that the global economy could emerge unscathed — all have diminished. We are cognizant of the risks ahead: softer earnings, weaker employment picture and demand destruction that undermines the ability for the consumer to continue to be the hero. We suggest portfolio positioning that is designed to keep pace with inflation, cope with hawkish monetary policy and cautiously take advantage of longer-term trends.*

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Asset class “heat map”

Our cross-asset class views indicate where we see the best relative opportunities within global financial markets. These are not intended to represent a specific portfolio, but rather to answer the question: “What are our highest conviction views when it comes to putting new money to work?” These views assume a U.S. dollar-based investor investing for long-term growth and represent a one-year time horizon.

The views above are for informational purposes only, and relate a comparison of the relative merits of each asset class based on the collective assessment of Nuveen’s Global Investment Committee. These do not reflect the experience of any Nuveen product or service. Upgrades and downgrades reflect quarterly shifts in these views.

Portfolio themes

- **Combating global inflation is more than a short-term play:** Watching inflation data these days is like waiting for a fever to break: Until prices peak, there's little hope for relief. With that in mind, we remain focused on asset classes that typically perform better in an inflationary environment — namely, farmland, real estate and infrastructure. Returns on these real assets have historically exhibited a positive correlation to inflation while offering portfolio diversification and relatively low volatility.
- **Economic detox and bear market dynamics:** We continue to witness an overheated U.S. economy detox from its pandemic-driven, stimulus-fueled state. There's little doubt market volatility will persist as these economic factors play out. In 2022 alone, there have been four bear market rallies, each one stronger and longer than the one before it.

  The question is: when does the bear break through and become a bull? Our U.S. Bear Market Tracker (Figure 1) captures the key data we follow to signal when the market may be nearing its bottom. **In short: we're not close, so we're staying defensive.** While some pain has already been reflected in valuations and bond spreads, we expect to see more rockiness ahead as corporate earnings deteriorate.
- **Avoid the traps:** We are still seeking mispriced asset classes (e.g., U.S. high yield) that may weather a recession better than conventional wisdom suggests. But we are also wary of equity markets outside of the U.S. that currently appear to fall into the category of "value trap." European and Chinese equity valuations, for example, may suggest attractive opportunities on the surface, but serious risks remain, and we see an absence of positive catalysts that would warrant new or increased allocations. We prefer a generally defensive posture, favoring credit and real assets over equities. When our outlook improves, we would be inclined to suggest accelerating rebalancing to strategic weights.

Figure 1: The Nuveen Bear Market Tracker

As of 21 Sep 2022

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

		Signaling a near-term bottom today?
VALUATIONS	S&P 500 Index forward price/earnings ratio -25%	● (Picture is mixed)
EARNINGS	S&P 500 Index forward earnings per share +6%	● (Further away)
MONETARY POLICY	Fed funds rate +3.00%	● (Further away)
MANUFACTURING ACTIVITY	ISM new orders index: -9.7	● (Picture is mixed)
BREADTH	% of S&P 500 Index members above their 100 week moving average: -58%	● (Picture is mixed)
BOND SPREADS (WIDENING)	Bloomberg U.S. high yield spread (bps) 204	● (Picture is mixed)

Data source: Bloomberg L.P., 21 Sep 2022. **Past performance 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.

Our highest-conviction views

- **U.S. high yield (+)** may be an out-of-consensus idea, and spreads could widen from current levels. But we believe equities are more vulnerable. Shifting from equity into credit could allow investors to access "growth risk," with relatively less downside potential, while also benefiting from attractive yields (~8%).

  Entry points look attractive as well. Relative to U.S. equities, U.S. high yield is currently priced at one of its more attractive levels in recent history. Investors can receive a healthy yield at wider spread levels during the period leading up to tighter spreads. This is our "paid to wait" mantra.

- **Non-U.S. developed market equities (-),** particularly in Europe and the U.K., are facing stagflation risks exacerbated by the Ukraine-Russia war and an unprecedented energy crisis as winter approaches.

- **We continue to de-emphasize emerging markets equities and debt (-).** China is increasingly isolated as it pursues zero-COVID measures at any cost. Moreover, with a likely third term for Xi Jinping, we don't expect an economic reopening until 2023. The strong U.S. dollar will continue to be a headwind in emerging markets.

And where we have disagreement

- **The extent to which private assets will reflect the pain felt in public assets.** Those GIC members inclined to allocate to private assets highlighted their attractive return potential and the ability, due to structuring and less frequent pricing, to shield portfolios from market volatility — a major concern to investors right now.

  On the other side of the issue, some GIC members highlighted how portfolios may have veered from their strategic weights to private assets due to public market pullbacks; the possibility of future mark-to-market pain; and that taking on more illiquidity could handcuff dynamism and the ability to take advantage of public market opportunities.

> **Overweighting high yield is an out-of-consensus view, but relative risks, valuations and fundamentals create a strong argument for doing so.**

The economy and markets

Brian Nick
Chief Investment Strategist

Key points to note

Believe it or not, things are getting back to normal.

It may not feel like it, but the global economy is getting back to normal. Prices are falling for durable goods as demand has dried up, but rents continue to rise, supported by undersupply and rising wages. Consumers are willing to pay high prices for long-delayed vacations. Meanwhile, tighter monetary policy is behaving as expected on parts of the economy — like housing — that are most sensitive to interest rate changes. Understandably, investors are focused on areas where conditions remain abnormal: The labor market imbalance favors workers and will tend to push wages higher. And energy prices remain highly volatile and hugely influential on policymakers, adding uncertainty to our outlook.

Some countries' slumps will be worse than others'.

The world is not inching back toward normal in unison. Countries with lower personal income levels and more dependence on energy imports will likely suffer more severe slumps than those in which inflation is moderating and real incomes are rising. Governments or companies outside the U.S. with dollar-denominated liabilities may also be stressed by the currency's sharp appreciation. Investors should assess whether those risks — which apply to many emerging markets as well as Europe and parts of Asia — are adequately priced into financial markets.

> “**Inflation is likely to remain elevated, but any recession should be relatively mild (at least in the U.S.).**

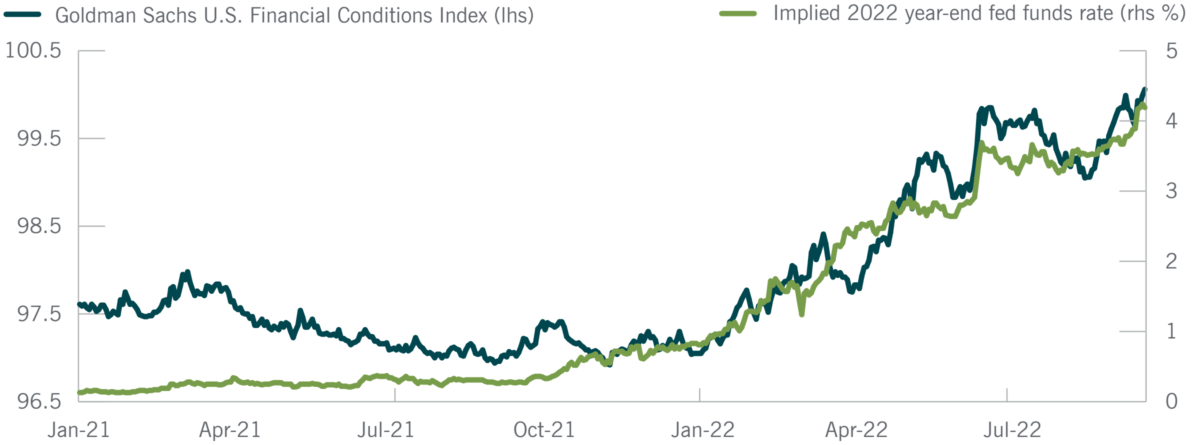
Private sector balance sheets still look solid, which is mostly a good thing.

We continue to be impressed with global consumers' resilience as they save less to grow their spending well in excess of inflation. Their efforts are keeping the global economy upright. Strong hiring demand and wage growth are helping, as are the still-large stock of excess savings on household balance sheets and the legacy of low interest rates keeping debt service costs manageable. But this resilience has a downside if it encourages central banks to press harder on the brake to slow inflation. If consumers continue to be unusually resistant to rising rates, it may give central banks the green light to hike more.

Yes, it really is still all about central banks.

Markets continue to view all data through the prism of how central banks will respond, which explains why negative inflection points for equities have come just after unexpectedly strong labor market data. Central banks, especially in Europe, are hiking rates into softening economic conditions, inviting a form of stagflation should energy prices fail to come down quickly. And each time markets have begun to price in easier policy — as they did in July — central banks have pulled them back (Figure 2). With the U.S. Fed leading the charge on inflation fighting, we expect the U.S. dollar to remain strong and U.S. rates to rise somewhat further and remain there for longer than what has been priced in.

Figure 2: When investors try to ease conditions on their own, the Fed pulls back on the reins



Data source: Bloomberg, L.P. and Goldman Sachs, 4 Jan 2021 to 19 Sep 2022.

GIC Asset class outlooks

EQUITIES

Saira Malik

Investment positioning

- With macro risks elevated, we're generally defensive when it comes to equities. Over the near term, markets are likely to be driven by inflation concerns, central bank policy, and earnings (which aren't looking great). Slowing economic growth and ongoing geopolitical concerns also make it tough to be bullish toward equities.
- Geographically, we prefer U.S. stocks (especially large caps) over non-U.S. developed and emerging markets given the relative economic resilience of the U.S. and ongoing dollar strength.
- We're particularly keen on dividend growers, as they tend to be more defensive, can weather volatility and provide income. We also like growth stocks that offer compelling fundamentals, solid pricing power and reasonable valuations.
- We also see opportunities in private equity. While some existing investments may suffer from the lagged effect of market repricing, current vintages may be worth a look, especially if the world manages to avoid a hard landing.

BEST IDEAS: *Health care remains a solid defensive sector and should offer stability. We also like the energy sector as a counterbalance to an overall defensive portfolio due to attractive valuations and strong supply/demand dynamics.*

FIXED INCOME

Anders Persson

Investment positioning

- Most bond sectors rallied over the past several months, and valuations are more in line with fundamentals. We remain concerned about ongoing central bank tightening (we think it will last longer than markets expect), and we see rising risks of recession in many parts of the world. All of this makes risk/return prospects for fixed income more challenging than they were a few months ago.
- We suggest focusing on credits with durable free cash flow and solid balance sheets. Interest rate risk remains high, so we advocate taking on credit risk over duration risk. We favor higher-income sectors (chiefly high yield and loans), but would lean into the higher-quality segments.
- U.S. high yield may seem like a counterintuitive choice given rising recession risks. But yields are compelling (currently more than 8%), defaults should remain low and the financial health of the overall market looks stronger than it did before the 2020 recession. A deep global recession would hurt high yield, but we think the sector is well positioned to withstand the more modest slowdown we anticipate.
- We're still negative toward EM debt, which is likely to struggle due to high inflation and the strong U.S. dollar.
- Private credit is benefiting from strong deal flow. Top-tier private equity buyers are focusing on defensible assets right now, which enhances the risk-adjusted return proposition of the loans. The most attractive assets include service-oriented revenue models and assets with business model resilience and pricing power.

BEST IDEAS: *1) The higher-quality segments of high yield and loans that should weather a worse economic environment but still offer compelling risk/reward prospects. 2) Preferred securities, given a strong technical environment and healthy financial sector balance sheets.*

MUNICIPALS

John Miller

Investment positioning

- Municipal market performance has improved, but the bumpy road continues as investors remain uncertain about the interest rate environment.
- Municipals should be supported by an eventual moderation in inflation and the likelihood of a soft U.S. economic landing or mild recession. Interest rate volatility should eventually subside, leaving the market at attractive yield levels both on a relative and absolute basis. Combined with solid fundamentals and healthy credit conditions, investors should be enticed by the value created in the market.
- We recognize we have an out-of-consensus view compared to most municipal bond managers. But we see value in both extending duration risk and increasing credit risk to seek out additional income and total return. Treasury yields have been more volatile than municipal yields, and we think defaults will remain low, even for lower-rated credits.

- We see solid opportunities across investment grade and high yield municipals, And, in general, we prefer bonds backed by property taxes and see value in the energy and electricity generation sectors.

BEST IDEAS: *1) Select transportation-related bonds in geographies such as Florida that are benefiting from construction booms and growing populations. 2) Energy-related projects focused on natural gas and nuclear power that should benefit from the U.S. Inflation Reduction Act.*

REAL ESTATE

Carly Tripp

Investment positioning

- Private real estate is performing well. Higher market rents — particularly from industrial and housing properties — are translating into strong net operating income growth. Investors continue to view real estate as a key portfolio diversifier in a high inflation environment.
- One area worth calling out: We are increasingly seeing value in retail sectors around the globe. The U.S. is actually experiencing more store openings than closings (especially in neighborhood retail, which has been particularly resilient during the pandemic), while European and Australian convenience and food-led retail offer compelling value. Asia-Pacific tourism and travel are also recovering, which should benefit tourism-related retail enterprises.
- In contrast, we continue to have a negative view toward the traditional office sector. Vacancy levels remain high, tenant demand is low and hybrid work policies muddy the outlook for an eventual recovery. The medical office buildings sector, supported by the rise in outpatient procedures and aging demographics, remains an exception.
- Across all sectors, we're seeing ongoing opportunities in low-or-zero-carbon real estate investments and we expect demand for this trend will continue to accelerate.

BEST IDEAS: *In the U.S., we favor single-family rental and highly specialized medical offices (both benefit from demographic trends and high demand); in Europe, we are focused on suburban housing (a still-emerging market) and data centers (demand for space is growing); and in Asia we see opportunities in senior living (demographic trends) and industrial properties (strong fundamentals).*

REAL ASSETS

Investment positioning

Justin Ourso

Jay Rosenberg

- The GIC strongly favors farmland in light of elevated inflation and geopolitical pressures creating supply issues. While input costs (namely fertilizer) are impacting profitability, row crop farmers should still generate above-average incomes due to strong commodity prices. We expect row crops across geographies to remain attractive, and believe farmland will remain a solid inflation hedge.
- Across public real assets, we're focused on balance sheet and refinancing risks, and generally favor infrastructure over real estate. Within real estate, we favor the U.S. and developed Asia-Pacific region over Europe, and multi- and single-family residential, necessity retail, net lease and health care over office and discretionary retail. We favor inflation-hedged infrastructure such as pipelines and waste, as well as regulated U.S. utilities and renewable energy. With the exception of renewable energy investments and toll roads, we continue to have a generally negative view toward European infrastructure and utilities.
- Across private real assets, we remain heavily focused on clean energy infrastructure investments, including generation, storage and mobility-related themes. We continue to see compelling investments in solar and offshore wind generation, as well as renewable diesel opportunities in the form of oilseed processing.

BEST IDEAS: *In public real estate, we are positive on residential, senior housing and industrial real estate, while in public infrastructure we like waste and energy-related infrastructure. Across private real assets, we favor investments that align with climate transition, such as carbon sequestration, clean energy, renewable fuel sources and continued strong global demand for healthy foods.*

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. Quarterly 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.

Sources

All market and economic data from Bloomberg, FactSet and Morningstar.

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